



# TENNESSEE

**Comprehensive Annual Financial Report**

**For the Fiscal Year Ended June 30, 2005**

# **Tennessee Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2005**

**PHIL BREDESEN, Governor**



**DEPARTMENT OF AUDIT**

**JOHN G. MORGAN, Comptroller of the Treasury**  
Division of State Audit  
**ARTHUR A. HAYES, JR., Director**

**DEPARTMENT OF FINANCE AND ADMINISTRATION**

**M.D. GOETZ, JR., Commissioner**  
Division of Accounts  
**JAN I. SYLVIS, Chief of Accounts**

**STATE OF TENNESSEE  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2005**

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# INTRODUCTORY SECTION

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**STATE OF TENNESSEE  
DEPARTMENT OF FINANCE AND ADMINISTRATION  
STATE CAPITOL  
NASHVILLE, TENNESSEE 37243-0285**

**DAVE GOETZ  
COMMISSIONER**

December 20, 2005

To the Honorable Phil Bredesen, Governor of the State of Tennessee, Members of the Legislature, and Citizens of the State of Tennessee

Tennessee Code Annotated 4-3-1007 requires the Department of Finance and Administration to maintain a system of general accounts embracing all the financial transactions of state government. As a part of the carrying out of this responsibility, I am pleased to submit the Comprehensive Annual Financial Report of the State of Tennessee for the fiscal year ended June 30, 2005.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

State statutes require an annual audit of all financial statements of the State. The Office of the Comptroller of the Treasury, Division of State Audit, has issued an unqualified ("clean") opinion on the State of Tennessee's financial statements for the year ended June 30, 2005. The independent auditor's report is located at the front of the financial section of this report.

As part of the audit of these financial statements, the Division of State Audit conducted an organization-wide audit as described in the Single Audit Act of 1984, as amended, and Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. The audit included tests of compliance with applicable federal laws and regulations, as well as, a study and evaluation of internal controls, including internal accounting and administrative controls used in administering federal financial assistance programs. The results of this single audit are published under separate cover by the Division of State Audit.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

**Profile of the Government**

The State of Tennessee was admitted to the union in 1796, as the sixteenth state. Tennessee has 41,219 square miles and a population estimated to be 5.9 million. The State has three branches of government, Executive, Legislative and Judicial. The Governor, who appoints commissioners to lead the various departments, heads the Executive branch. The Legislative branch is bicameral, with 99 members of the House of Representatives and 33 Senators. The Representatives serve two-year terms. The Senators serve four-year terms, with about one half being elected every two years. The Judicial branch rules on the constitutionality of laws enacted by the Legislature and the legality of administrative policies and regulations of the Executive branch.

The State of Tennessee provides a full range of services including education, health and social services, transportation, law, correction, safety, resources, regulation, and business and economic development. Its financial reporting entity includes all the funds of the primary government as well as all its component units. Component units are legally separate entities for which the primary government is financially accountable.



State legislation requires the Governor to present his proposed budget to the General Assembly at the beginning of each annual session. Annual budgets are adopted for the general fund, special revenue funds (except Fraud and Economic Crime, Community Development and the Dairy Promotion Board), and debt service fund. The General Assembly enacts the budget through passage of specific departmental appropriations, the sum of which may not exceed estimated revenues. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the State's financial plan for the coming year.

Budgetary control is maintained at the department level. Budget revisions during the year, reflecting program changes or interdepartmental transfers of an administrative nature, may be affected with certain executive and legislative branch approval. Only the legislature, however, may transfer appropriations between departments.

### **Local economy**

Economic conditions in Tennessee continue to show improvement. Unemployment rates have fallen, income growth has been relatively strong and nonfarm employment has gained some momentum. Following several years of job losses in manufacturing, there are emerging signs that growth may be on the horizon. By several barometers of economic conditions, the state economy has performed better than its national counterpart. Modest improvement in economic conditions is expected in 2005 and 2006. The most important shift in economic fortunes will be in state labor markets. Nonfarm jobs are expected to advance 1.5 percent in 2005 and 1.8 percent in 2006. Manufacturing job growth should move back into the black in both years.

Characteristics of Tennessee that have been identified as important reasons why firms have chosen sites within the state include work force related factors such as worker productivity, right-to-work laws and low unionization, as well as access to markets and the pro-business attitude of the state. Other factors include relatively inexpensive energy, plentiful natural resources, and sun-belt location.

Manufacturing investment in Tennessee totaled \$2.7 billion in 2004, marking the twenty-second consecutive billion-dollar year for the state. The combined new and expansion manufacturing, headquarters, distribution and selected services projects created an estimated 31 thousand new job opportunities.

Per capita personal income is commonly used to compare economic well-being and quality of life across areas. Tennessee has seen noticeable improvement over time in its per capita income relative to the nation. However, state per capita income has remained below the US average since 1986. The gap between the US and Tennessee narrowed during the strong growth period of the early 1990s, then widened from 1996 forward to the onset of the recession in 2001. Since then the state's relative standing has been improving.

Tennessee job growth slowed in the last half of the decade of the 1990s on the heels of exceptionally strong job growth through 1995. Job growth was particularly resilient in 1993 and 1994, coming in at 3.7 percent and 4.1 percent, well ahead of the national pace of job growth. Job contraction took place in 2001 and 2002 as a result of the national recession, but has subsequently rebounded with positive growth. The state's manufacturing sector enjoyed the economic boom of the early 1990s, but since 1996 the manufacturing sector has not fared as well. As manufacturing has suffered, the various service sectors have prospered. Jobs in the services sector have reflected positive compound annual growth rates since 1992.

Tennessee's unemployment rate generally varies with the cyclical pattern of the national economy. The state tends to enjoy lower rates of unemployment over the ups and downs of the business cycle than the national economy. The state unemployment rate stood at 6.4 percent in 1992, a reflection of the weak economic conditions that prevailed at that time; the US unemployment rate was 7.5 percent. In 2000, the state unemployment rate was only 3.9 percent. But with the onset of the recession in 2001, rates rose into 2003 when the prevailing average reached 5.8 percent. The US rate of unemployment stood at 6.0 percent in the same year. Annual average rates fell in 2004 with Tennessee coming in at 5.4 percent against a US average of 5.5 percent.

### **Long-term financial planning**

In 1996, legislation was enacted that determined the allocation goal for a reserve for revenue fluctuations to be five percent of the estimated State tax revenues to be allocated to the general fund and education trust fund. The revenue fluctuation reserve allows services to be maintained when revenue growth is slower than estimated in the budget. Beginning with the budget for the fiscal year 1998-1999 and until the statutory funding level is achieved, an allocation to the reserve is to be budgeted in an amount at least equal to ten percent of the estimated growth in estimated state tax revenues to be allocated to the general fund and education trust fund. Amounts in the revenue



fluctuation reserve may be utilized to meet State tax revenue shortfalls. Subject to specific provisions of the general appropriations bill, an amount not to exceed the greater of \$100 million or one-half (1/2) of the amount available in the reserve may be used to meet expenditure requirements in excess of budgeted appropriation levels.

The expansion of this fund is a priority. An increase in this reserve that exceeds the minimum legal requirement has been included in the 2005-2006 budget.

In 2002, Tennessee initiated an Enterprise Resource Planning (ERP) automation assessment study to research the feasibility of implementing an ERP system to meet the State's financial management, procurement, human resources, payroll administration and other administrative business needs. Currently in the process of procuring software and an integrator, the implementation of an ERP system is expected to significantly improve the state's business processes, and thereby its effectiveness and efficiency, by enabling the use of best management practices for financial, human resource, purchasing and other administrative operations.

### **Relevant financial policies**

In 1994, the State transformed its Medicaid Program into a managed care project called TennCare, which covered not only Medicaid eligible persons but also certain uninsured or uninsurable persons. The State is in the process of implementing TennCare reform during fiscal year 2005-2006. These reforms include disenrolling uninsured and uninsurable adults who do not qualify for traditional Medicaid categories, establishing benefit limits in the pharmacy and medical programs, and gaining alterations to federal consent decrees. In addition, certain operational reforms are underway, including returning managed care contractors to risk arrangements, upgrading edits in the pharmacy point of sale system, and negotiating settlements with Centers for Medicare and Medicaid Services on current funding arrangements and prior disallowances. These reform strategies are intended to provide the State a greater ability to control TennCare spending. The 2005-2006 budget reflects disenrolling uninsured and uninsurable adults and establishing benefit limits in the pharmacy program.

Unreformed, a projected \$647 million growth in state funds required in 2005-2006 would consume all of an estimated \$325 million growth in general fund state taxes, plus another \$322 million. The reform of TennCare allows for needed improvements in other areas, such as education, with no new taxes and no statewide budget reductions.

Tennessee pursues an aggressive cash management and investment program. One aspect of this program that is believed unique to Tennessee is the state's direct access into the Federal Reserve wire system. Through the State Trust of Tennessee, wire services in the federal system are available via a terminal located in the State's investment offices. This provides the State flexibility in investing and concentrating cash balances, pension fund assets, and in redeeming warrants and checks issued against the Treasury. During fiscal year 2005, uncommitted State funds were invested in short-term collateralized deposits as follows (averaged): certificates of deposit (33%), commercial paper (27%), U.S. Treasuries (37%), and money market accounts (3%). The composite average yield on these investments was 2.12%, up from 1.11% last year.

Tennessee currently provides a subsidy to retiree healthcare premiums based on years of service. The funding of those subsidies is on a pay-as-you-go basis. New accounting standards will require state and local government employers to account for other postemployment benefits (benefits other than pensions) by recognizing an obligation in the government-wide financial statements if the benefits promised to employees are not advance funded. As a result of the new accounting standards, executive management will soon begin considering whether a change in policy regarding the funding of the state's other postemployment benefits is appropriate. An actuarial study to determine an estimate of the state's obligation has been completed and will be used in the decision-making process.

### **Major initiatives**

Tennessee continues to focus on making education the state's fundamental priority, and on taking the next steps in job creation and economic development, public safety, and making state government focused and more responsive to its citizens.

The voluntary pre-kindergarten program is to be expanded during 2005-2006 from education lottery funds, with the goal of eventually integrating this program into the state's education funding formula, the Basic Education Program (BEP). The Basic Education Program will continue to be fully funded and BEP funding increased for at-risk students across the state. "Teach Tennessee" is being implemented to challenge highly motivated, mid-career professionals to teach in the hardest-to-staff schools and in high-need subject areas.



A redesigned jobs initiative will focus on job creation with a goal of modernizing the tool kit used to sustain and build new industry in Tennessee. This will include investment in Tennesseans through training and re-training workers in advanced technologies, along with an expansion of infrastructure to foster competitiveness for new industry statewide. A Jobs Cabinet has been created to coordinate efforts at the highest levels of state government to create better-paying, higher-skilled jobs for working Tennesseans, and an Office of Diversity Business Enterprise has been created to serve as a point of service and information clearinghouse for small businesses, including minority- and women-owned businesses.

Methamphetamine abuse is a clear and present danger to the future of Tennessee. Legislation was passed to broaden the state's attack on methamphetamine abuse. This legislation includes limits on the sale of cold and sinus products containing pseudoephedrine, a vital ingredient in the meth-making process. It also enhances criminal penalties relating to meth use, particularly personal use. Funding is to be provided for the cost of increased penalties; grants to Child Advocacy Centers in meth-plagued areas; the safe and drug free school program; a drug court pilot project; a public service campaign; and legal and lab response training for law enforcement officers, prosecutors and firefighters.

#### **Awards and acknowledgements**

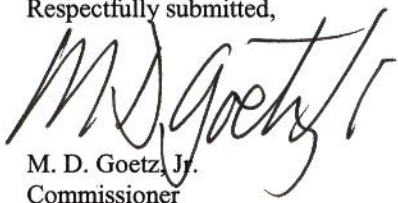
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Tennessee for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2004. This was the twenty-sixth consecutive year that the state has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Tennessee Consolidated Retirement System has also received a Certificate of Achievement for Excellence in Financial Reporting award for seventeen consecutive years for its Comprehensive Annual Financial Report. In addition, the GFOA presented its Distinguished Budget Presentation Award to the State for its annual budget for the fiscal years ended June 30, 1992 through June 30, 1995 and June 30, 1998 through June 30, 2006. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communication device.

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the Division of Accounts in the Department of Finance and Administration; and, the cooperation of all state agencies and branches. My sincerest appreciation is extended to all of the contributing staff and organizations.

Respectfully submitted,



M. D. Goetz, Jr.  
Commissioner



Jan Sylvis  
Chief of Accounts



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
STATE CAPITOL  
NASHVILLE, TENNESSEE 37243-0260  
(615) 741-2501

John G. Morgan  
Comptroller

December 20, 2005

To the Members of the General Assembly  
of the State of Tennessee  
and  
The Honorable Phil Bredesen, Governor  
of the State of Tennessee

Ladies and Gentlemen:

In accordance with Section 4-3-304, Tennessee Code Annotated, transmitted herewith is the auditor's report on the Comprehensive Annual Financial Report of the State of Tennessee for the fiscal year ended June 30, 2005.

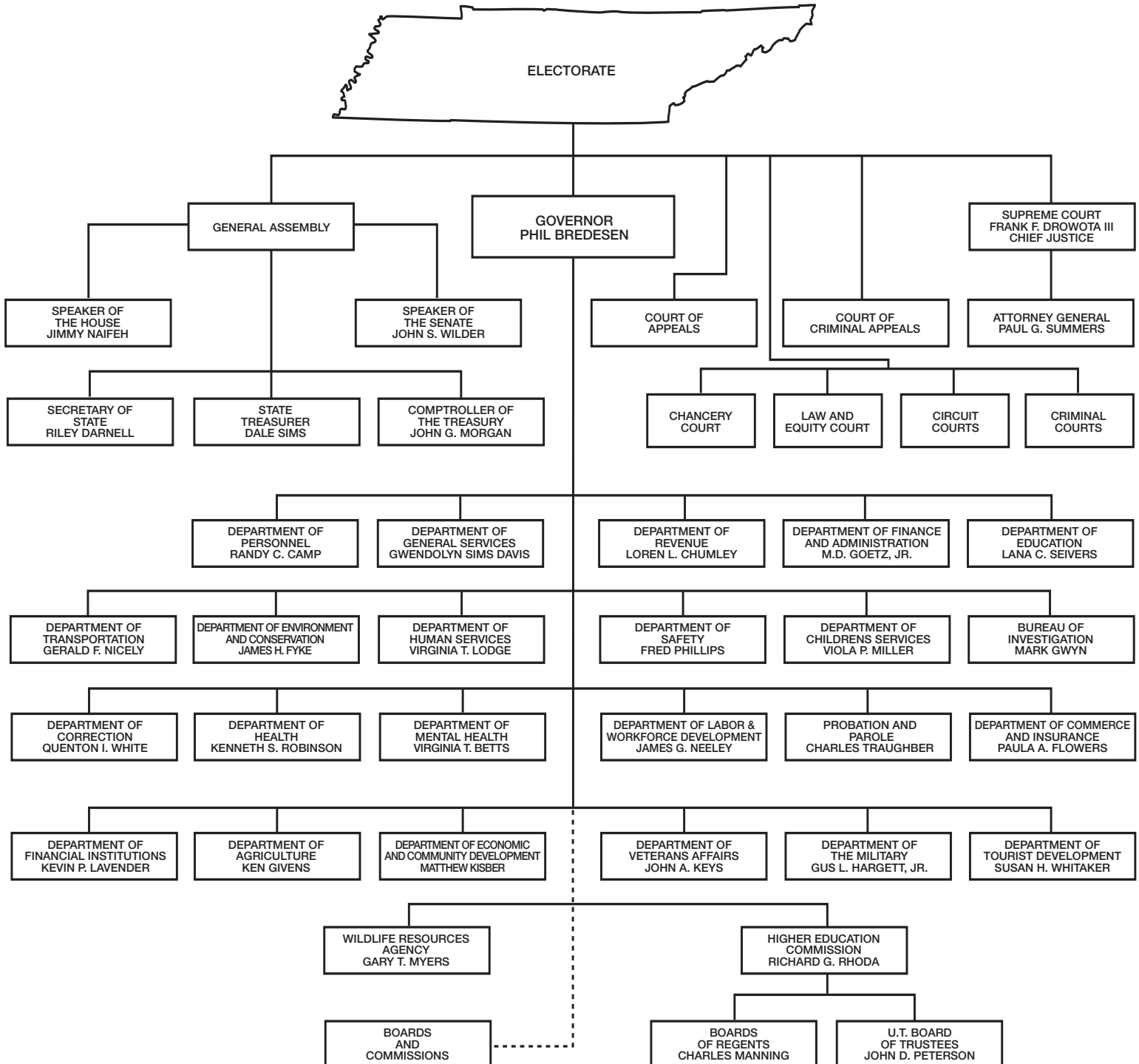
Respectfully,

A handwritten signature in dark ink, reading "John G. Morgan". The signature is fluid and cursive, with a long horizontal stroke at the end.  
John G. Morgan  
Comptroller of the Treasury

JGM/jmc



# STATE OF TENNESSEE ORGANIZATION CHART As of June 30, 2005



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## State of Tennessee

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

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# **FINANCIAL SECTION**

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STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT

SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 401-7897  
FAX (615) 532-2765

**Independent Auditor's Report**

December 20, 2005

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of and for the year ended June 30, 2005, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of many agencies, commissions, and component units of the State of Tennessee; approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving plans of operation of the state's Community Services Agencies and the Tennessee State Veterans' Homes Board; approving certain state contracts; participating in the negotiation and procurement of services for the state; managing the state's debt; making loans to the state's colleges and universities from debt proceeds; maintaining the accounting records for the Tennessee Local Development Authority and the Tennessee State School Bond Authority; developing policy guidelines for the overall management of the state's information systems; approving settlements against the state; and providing support staff to the State Funding Board, the bond finance committee of the Tennessee Housing Development Agency, various legislative committees, and commissions. The boards of which the Comptroller of the Treasury serves as a member per state statutes include Baccalaureate Education System Trust, Board of Claims, Board of Standards, Chairs of Excellence, Health Services and Development Agency, Local Education Committee, Local Government Insurance Committee, State Building Commission, State Funding Board, State Insurance Committee, State Trust of Tennessee, Tennessee Consolidated Retirement System, Tennessee Higher Education Commission, Tennessee Housing Development Agency, Tennessee Local Development Authority, Tennessee Student Assistance Corporation, and Tennessee State School Bond Authority.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

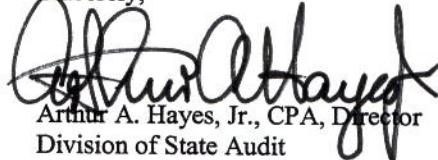
As discussed in Note 4 to the financial statements, the State of Tennessee has implemented the Governmental Accounting Standards Boards' Statements No. 40, *Deposit and Investment Risk Disclosures*, and 46, *Net Assets Restricted by Enabling Legislation*.

The management's discussion and analysis, the schedule of revenues, expenditures and changes in fund balances – budget and actual, and infrastructure assets reported using the modified approach are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Tennessee's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical and economic data are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical and economic data have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we will issue our report dated December 20, 2005, on our consideration of the State of Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters in the *Tennessee Single Audit Report*. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Sincerely,



Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/jmc



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our management discussion and analysis (MD&A) of the State of Tennessee's (the State's) financial performance provides an overview of the State's financial activities for the year ended June 30, 2005. Please read it as a narrative introduction to the financial statements that follow. The information included here should be considered along with the transmittal letter which can be found on pages I-IV of this report. MD&A includes a description of the basic financial statements for government, condensed financial information along with analyses of balances and financial position, descriptions of significant asset and debt activity, discussions of budgetary matters and significant issues affecting financial position.

### FINANCIAL HIGHLIGHTS

- **Government-wide:**

Net Assets - The assets of the State exceeded its liabilities at June 30, 2005, by \$22.805 billion (reported as net assets). Of this amount, \$1.428 billion may be used to meet the State's obligations not funded by restricted net assets. However, \$19.407 billion of this amount represents *invested in capital assets, net of related debt*, which cannot be used to fund ongoing activities of the government.

Changes in Net Assets - The State's net assets increased by \$1.167 billion. Most of this increase results from the State's decision to utilize the modified approach for reporting infrastructure capital assets. Because of this decision, the State capitalized infrastructure expenditures of \$757.6 million and did not record depreciation expense. Other capital assets are depreciated.

Component units - Component units reported net assets of \$3.83 billion, an increase of \$160.9 million.

- **Fund Level:**

At June 30, 2005, the State's governmental funds reported combined ending fund balances of \$2.6 billion, an increase of \$227 million (see discussion on page 10) in comparison to the prior year. Of the combined fund balance approximately \$737.8 million is available for spending at management's discretion (unreserved fund balance), however \$275 million of this amount is designated for revenue fluctuations.

- **Long-Term Debt:**

The State's total debt decreased by \$13.2 million during the fiscal year to total \$1.219 billion. This change reflects the State's decision to issue general obligation refunding bonds during the fiscal year to obtain lower interest rates on future debt service.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 17 and 18-19) provide information about the activities of the State as a whole (government-wide statements) and present a longer-term view of the State's finances. Fund financial statements start on page 22. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the State's operations in more detail than the government-wide statements by providing information about the State's most significant funds. The remaining statements provide financial information about activities for which the State acts solely as a trustee or agent for the benefit of those outside of the government.



## Reporting the State as a Whole

### *The Statement of Net Assets and the Statement of Activities*

Our analysis of the State as a whole begins on page 7. One of the most important questions asked about the State's finances is, "Is the State as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the State as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These statements report financial information about the entire government except fiduciary activities. The statements distinguish between the primary government and its component units, and also distinguish between governmental activities and business-type activities of the primary government. The Statement of Net Assets displays all the State's financial and capital resources in the format of assets minus liabilities equal net assets. The Statement of Activities reports the State's operations by function to arrive at net revenue (expense). The statement reports what type revenue (either program revenue or tax revenue) funds the government operations. The State functions that are identified on this statement correspond to the functions used for budgetary purposes:

- Governmental activities—general government; education; health and social services; law, justice and public safety; recreation and resources development; regulation of business and professions; transportation; state shared taxes paid to local governments; and interest on long-term debt.
- Business-type activities—employment security, insurance programs, loan programs and other.
- Component units—significant component units include the Tennessee Housing Development Agency, the Tennessee Education Lottery Corporation, the Tennessee Board of Regents, and the University of Tennessee. Although these and other smaller entities are legally separate, these "component units" are important because the State is financially accountable for them.

## Reporting the State's Most Significant Funds

### *Fund financial statements*

Our analysis of the State's major funds begins on page 10. The fund financial statements begin on page 22 and provide detailed information about the most significant funds—not the State as a whole. Some funds are required to be established by State law and by bond covenants. However, the State establishes many other funds to help it control and manage money for particular purposes (like capital projects) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The State's two kinds of funds—governmental and proprietary—use different accounting approaches.

Governmental funds focus on the near-term inflows and outflows of funds and the balances left at year-end available for spending. The *modified accrual basis of accounting* is used for these funds, which means that we measure cash and all other financial assets that can readily be converted to cash. These statements provide a short-term view of the State's basic general government operations. One can determine whether there are more or fewer financial resources that can be spent in the near future. The governmental activities in the Statement of Net Assets are reconciled to the governmental funds in the fund financial statements in a reconciliation at the bottom of the fund financial statements.

Proprietary funds report the government services that charge service fees to its customers. Proprietary funds include enterprise funds (serving citizens) and internal service funds (serving state agencies). The enterprise funds are the same as the business-type activities reported in the government-wide statements, but provide more detail; whereas the internal service funds are included in the governmental activities.

**Notes to the financial statements.** Notes to the financial statements are also included and provide necessary information to understand the financial statements. They are an integral part of the financial statements and focus on the primary government and its activities. Some information is provided for significant component units.

## The State as Trustee

### *Reporting the State's Fiduciary Responsibility*

Fiduciary funds are used to report resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the State cannot use these assets to finance its operations. Instead, the State is responsible for using the fiduciary assets for the fiduciary fund's intended purposes.

## THE STATE AS A WHOLE

### *Government-wide Financial Analysis*

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the State, combined assets exceeded liabilities by \$22.805 billion as of June 30, 2005.

By far the largest portion of the State's net assets (85%) reflects its investment in capital assets (e.g., land, infrastructure, structures and improvements, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### State of Tennessee Net Assets (Expressed in Thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 4,799,642	\$ 4,412,431	\$ 1,569,657	\$ 1,427,852	\$ 6,369,299	\$ 5,840,283
Capital assets	<u>19,875,653</u>	<u>19,175,785</u>			<u>19,875,653</u>	<u>19,175,785</u>
Total Assets	<u>24,675,295</u>	<u>23,588,216</u>	<u>1,569,657</u>	<u>1,427,852</u>	<u>26,244,952</u>	<u>25,016,068</u>
Current and other liabilities	1,672,832	1,545,081	53,152	59,797	1,725,984	1,604,878
Noncurrent liabilities	<u>1,708,419</u>	<u>1,764,352</u>	<u>5,316</u>	<u>8,140</u>	<u>1,713,735</u>	<u>1,772,492</u>
Total liabilities	<u>3,381,251</u>	<u>3,309,433</u>	<u>58,468</u>	<u>67,937</u>	<u>3,439,719</u>	<u>3,377,370</u>
Net assets:						
Invested in capital assets, net of related debt	19,406,978	18,691,308			19,406,978	18,691,308
Restricted net assets	580,840	843,889	1,389,261	1,288,353	1,970,101	2,132,242
Unrestricted net assets	<u>1,306,226</u>	<u>743,586</u>	<u>121,928</u>	<u>71,562</u>	<u>1,428,154</u>	<u>815,148</u>
Total net assets	<u>\$ 21,294,044</u>	<u>\$ 20,278,783</u>	<u>\$ 1,511,189</u>	<u>\$ 1,359,915</u>	<u>\$22,805,233</u>	<u>\$ 21,638,698</u>

An additional portion of the State's net assets (8.6 percent) is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets (\$1.428 billion) and may be used to meet the State's ongoing obligations to citizens and creditors not funded by resources that are restricted.

At the end of the current fiscal year, the State was able to report positive balances in all three categories of net assets, for the government as a whole, and for its separate governmental and business-type activities.

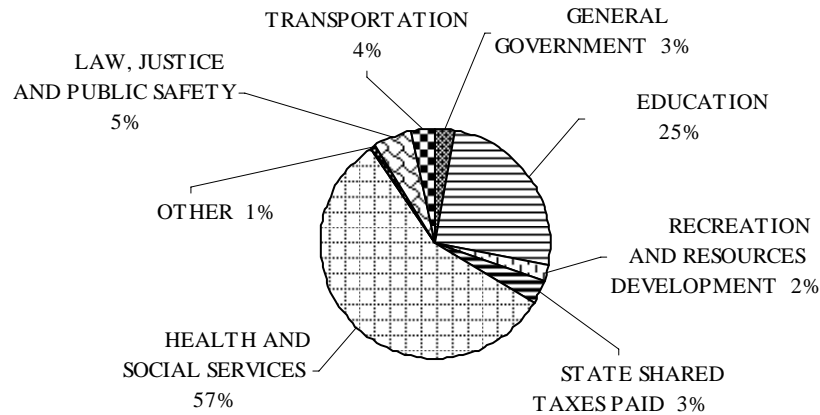
The State's net assets increased by \$1.167 billion during the year ended June 30, 2005. As previously discussed, most of this increase was attributable to the State's decision to adopt the modified approach to infrastructure. Because of this decision, the State capitalized \$757.6 million in infrastructure expenditures and did not record depreciation expense. Also, Tennessee does not fund highway construction by issuing debt, but it is funded primarily with fuel taxes and federal grants in the Highway Fund. Most of the remaining gain of \$409.4 million resulted from operations in the Education Trust, Sewer Treatment Loan, and Employment Security Funds, and other nonmajor enterprise funds, which is discussed later in this MD&A.

State of Tennessee  
Changes in Net Assets  
(Expressed in Thousands)

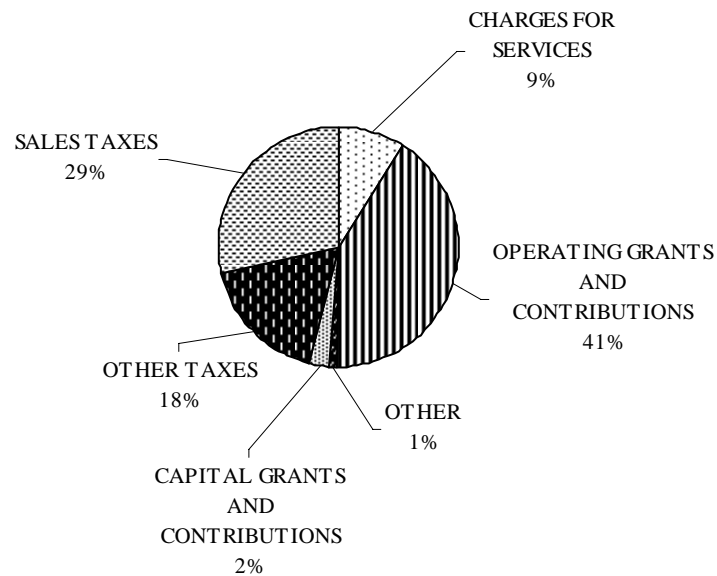
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,924,770	\$ 1,775,553	\$ 941,297	\$ 960,800	\$ 2,866,067	\$ 2,736,353
Operating grants and contributions	8,777,283	8,095,087	100,536	208,296	8,877,819	8,303,383
Capital grants and contributions	520,090	503,539			520,090	503,539
General revenues:						
Sales Taxes	6,099,159	5,806,268			6,099,159	5,806,268
Other taxes	3,757,905	3,540,115			3,757,905	3,540,115
Grants and contributions not restricted to specific programs	46,807	152,676			46,807	152,676
Other	239,587	219,732			239,587	219,732
Total revenues	<u>21,365,601</u>	<u>20,092,970</u>	<u>1,041,833</u>	<u>1,169,096</u>	<u>22,407,434</u>	<u>21,262,066</u>
Expenses:						
General government	596,016	546,996			596,016	546,996
Education	5,158,369	4,692,605			5,158,369	4,692,605
Health and social services	11,522,061	10,583,726			11,522,061	10,583,726
Law, justice and public safety	1,090,779	1,032,302			1,090,779	1,032,302
Recreation and resources development	423,342	479,251			423,342	479,251
Regulation of business and professions	113,902	81,940			113,902	81,940
Transportation	698,450	787,646			698,450	787,646
State shared taxes paid to local governments	683,925	647,654			683,925	647,654
Interest on long-term debt	42,902	51,819			42,902	51,819
Employment security			476,646	639,993	476,646	639,993
Insurance programs			430,568	416,871	430,568	416,871
Loan programs			1,909	1,737	1,909	1,737
Other			2,498	2,037	2,498	2,037
Total expenses	<u>20,329,746</u>	<u>18,903,939</u>	<u>911,621</u>	<u>1,060,638</u>	<u>21,241,367</u>	<u>19,964,577</u>
Increase (decrease) in net assets before contributions and transfers	1,035,855	1,189,031	130,212	108,458	1,166,067	1,297,489
Transfers	(21,062)	(18,829)	21,062	18,829		
Contributions to permanent funds	468	351			468	351
Increase (decrease) in net assets	1,015,261	1,170,553	151,274	127,287	1,166,535	1,297,840
Net assets, July 1	<u>20,278,783</u>	<u>19,108,230</u>	<u>1,359,915</u>	<u>1,232,628</u>	<u>21,638,698</u>	<u>20,340,858</u>
Net assets, June 30	<u>\$ 21,294,044</u>	<u>\$ 20,278,783</u>	<u>\$ 1,511,189</u>	<u>\$ 1,359,915</u>	<u>\$ 22,805,233</u>	<u>\$ 21,638,698</u>

**Governmental activities.** Net assets of the State's governmental activities increased by \$1.015 billion, which accounts for 87 percent of the total growth of net assets of the primary government. Most of this increase is due to the State capitalizing \$757.6 million in infrastructure expenditures and not recording depreciation expense on these assets. In addition, the Education Trust Fund increased \$135.5 million. This increase was primarily due to the fact that this fiscal year was the first full year the fund received net lottery proceeds and the first year scholarship payouts were lower than originally expected.

#### EXPENSES BY FUNCTION - GOVERNMENTAL ACTIVITIES



#### REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES



**Business-type activities.** Net assets of the State's business-type activities increased by \$151.3 million, which accounts for 13 percent of the total growth in net assets of the primary government. The majority of the increase was caused by a \$53.8 million increase in the Employment Security Fund, which resulted from the improvement in the national economy; \$51.2 million increase in the Teacher Group and Local Government Group Insurance Funds, which resulted from a January 1, 2005, premium increase; and \$38.2 million increase in the Sewer Treatment Loan Program, which resulted from additional loans issued and the federal monies received for these loans.

## **THE STATE'S FUNDS**

Tax collections increased for the year and expenditures increased as well. Details are in the following paragraphs. The Revenue Fluctuation Reserve has been increased to \$275.4 million or 1.9% of General Fund expenditures.

General fund revenue collections increased for the year by \$938 million. Sales tax collections increased by \$124 million. In addition, Excise tax collections were up \$135 million due to the improved economy. Federal revenue collections increased by \$415 million primarily due to increased expenditures in the TennCare program.

General fund expenditures increased approximately \$1.341 billion. \$938 million of this increase was due to increased expenditures in the TennCare program resulting from pharmacy inflation and medical utilization increases. In addition, Human Services experienced increased expenditures of \$135 million. This increase was due to the increase in food stamp coupons distributed to citizens of approximately \$117 million. The food stamp program has experienced an increase in the number of eligible participants. The program is reimbursed 100% by the federal government. Mental Retardation expenditures increased by \$84 million. Community services for the mentally retarded increased by \$61 million. This increase reflects the rising cost of community residential placements and associated medical costs as well as increased demand for services.

Current assets in the General fund remained relatively constant with only a decrease of .5%. The fund balance of the General fund also remained relatively constant with a decrease of 1.4%.

The Education Trust Fund revenue increased \$357.7 million for the year. The sales tax appropriated to the fund increased by \$144.7 million and federal revenue collections were up by \$93.0 million. In addition, the net lottery proceeds transferred from the Tennessee Education Lottery Corporation (TELC) increased by \$104.1 million. This was the first full year that the Education Trust Fund received the net lottery proceeds that funds scholarships for eligible Tennessee citizens to attend post-secondary educational institutions located in Tennessee. Of the \$304.0 million Education Trust fund balance, \$255.1 million is restricted for the distribution of these scholarships.

Education Trust Fund expenditures increased approximately \$470.7 million or 10.2%. Most of the increase was to maintain full funding of the Basic Education Program (BEP) formula, equalize teacher salaries, and provide for teacher salary increases and group health insurance increases for local education agencies (\$207.5 million). In addition, expenditures increased due to additional funding for the No Child Left Behind Act (\$35.7 million), increased funding for special education programs (\$21.1 million), and additional students qualified for school nutrition programs (\$14.5 million). Also, beginning in August of 2004, lottery-funded scholarships were awarded to eligible Tennessee students (\$93.5 million). In addition, appropriations to the college and university systems increased approximately \$59 million to restore prior year budgetary cuts, and to provide for employee salary and group health insurance increases.

The total plan net assets of the pension trust funds were \$27.2 billion, up over \$1.6 billion from the prior year. As a result of the improved performance of the financial markets, the pension trust funds incurred a net investment gain of \$1.85 billion.

### **General Fund Budgetary Highlights**

Tax collections were \$334.1 million over the estimate due to a strong economy. Federal revenue estimates from original to final budget increased by \$323 million primarily due to increases in federal revenue in TennCare and Human Services. In addition, significant variances between original and final budget were noted for TennCare and Human Services. The TennCare program experienced an increase in funding from original to final budget in the amount of \$447 million. This was the result of increased expenditures resulting from increased pharmaceutical costs, managed care organization costs, and provider payments. The department of Human Services experienced an increase in funding from original to final budget in the amount of \$126 million due primarily to increased federal funding in the food stamp program.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The State's investment in capital assets at June 30, 2005 of \$19.876 billion, net of \$1.025 billion accumulated depreciation, consisted of the following:

Capital Assets—Primary Government  
Governmental Activities  
(Expressed in Thousands)

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Land	\$ 1,083,091	\$ 955,713
Infrastructure	16,404,789	16,007,143
Construction in progress	1,149,728	990,694
Structures and improvements	1,720,603	1,700,137
Machinery and equipment	<u>542,678</u>	<u>502,220</u>
Subtotal	20,900,889	20,155,907
Accumulated depreciation	<u>(1,025,236)</u>	<u>(980,122)</u>
Total	<u>\$ 19,875,653</u>	<u>\$ 19,175,785</u>

More detail of the activity during the fiscal year is presented in Note 5C to the financial statements.

Capital assets, including those under construction, increased from fiscal year 2004 to 2005 by approximately 4 percent. The change was primarily due to purchases of land for highway right-of-ways and completion of segments of infrastructure — highways and bridges. Construction in progress for highways and bridges increased by \$639.7 million and decreased (projects completed and capitalized) by \$476.2 million. Infrastructure right-of-way acreage increased the land classification by \$117.8 million. The structures and improvements increase of \$20.5 million consisted largely of additions and improvements to the State office buildings in Jackson (\$10.6 million) and Nashville (\$5.5 million), Knoxville-Region 1 Transportation Management Center (\$2.8 million), and other miscellaneous projects. The net change in machinery and equipment of \$40.5 million resulted primarily from replacing aged equipment.

In accordance with generally accepted accounting standards, the State is eligible for and has adopted an alternative approach to depreciating its roadways and bridges. Under the *modified approach*, governments are permitted to expense the cost of preserving roadways and bridges rather than to record a periodic charge for depreciation expense. Under the depreciation method, preservation expenses are capitalized. The State is responsible for approximately 14,000 miles of roadway and 8,089 bridges.

The decision to use the modified approach was essentially made because the State has consistently maintained its infrastructure in what it considers to be a good condition. The most recent condition assessment, which is discussed in more detail in the Required Supplementary Information section (Page 94), indicated that bridges were rated at almost 5 points above the State's established condition level and roadways were almost 15 points above the State's benchmark level. Bridges are assessed biennially and roadways annually.

The State's capital outlay budget for the 2004-2005 fiscal year reflects a slight improvement over previous years. Some new projects have been approved—the Memphis Bio-technology facility and the Western Mental Health Institute new facility—for general government. A number of new projects, such as renovations at TBR and UT facilities and the UT Memphis College of Pharmacy building have commenced. In addition, the capital outlay budget consists of expenditures for maintenance of existing facilities (state and higher education institutions), projects funded by the Federal Government, and statutory requirements for prisons' physical plant maintenance and additions.

## Debt Administration

In accordance with the Constitution, the State has the authority to issue general obligation debt that is backed by the full faith and credit of the State. The Legislature authorizes a certain amount of debt each year and the State Funding Board has oversight responsibility to issue the debt for capital projects. Capital spending is also authorized by the Legislature and the State Building Commission has oversight responsibility for all capital projects exceeding \$100 thousand (for new construction) and maintenance to existing facilities. The State issues Commercial Paper as a short-term financing mechanism for capital purposes and the Commercial Paper is typically redeemed with long-term bonds. The unissued balance by function (expressed in thousands) follows:

<u>Purpose</u>	<u>Unissued June 30, 2005</u>
Highway	\$ 882,500
Higher Education	75,368
Environment and Conservation	13,012
General Government	932,058
Local Development Authority	<u>14,000</u>
Total	<u>\$ 1,916,938</u>

More detail of the activity during the fiscal year is presented in Note 5H to the financial statements.

The State's outstanding general obligation debt consists of the following (expressed in thousands):

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Bonds, net	\$ 1,044,830	\$ 1,141,026	\$ 5,232	\$ 8,071
Commercial Paper	<u>168,575</u>	<u>82,775</u>	<u>          </u>	<u>          </u>
Total	<u>\$ 1,213,405</u>	<u>\$ 1,223,801</u>	<u>\$ 5,232</u>	<u>\$ 8,071</u>

The State issued \$398.37 million in tax-exempt general obligation refunding bonds during the fiscal year to obtain lower interest rates on future debt service. Approximately two-thirds of the outstanding debt has been issued either for capital projects of two of the State's major Component Units—University of Tennessee and Tennessee Board of Regents—or provided to local governments as capital grants; assets acquired with this debt belong to those entities. The State has not issued bonds to fund infrastructure since 1976; infrastructure has been funded on a pay-as-you-go basis. Additional information on long-term obligations is presented in Note 5H to the financial statements.

The State's bonds are rated AA, Aa2, and AA by Fitch Investors Service, Moody's Investors Service, and Standard & Poor's Rating Group, respectively. Under current State statutes, the general obligation debt issuances are subject to an annual legal debt service limitation based on a pledged portion of certain current year revenues. As of June 30, 2005, the State's annual debt service limit of \$594.8 million was well above the debt service required \$155.2 million, with a legal debt service margin of \$439.6 million.

## FACTORS THAT WILL AFFECT THE FUTURE

The State is in the process of implementing Medicaid reform. The most substantial components of this reform have been completed or will reach completion within the coming months. These include disenrolling uninsured and uninsurable adults that do not qualify for traditional Medicaid categories, establishing benefit limits in the pharmacy and medical programs, and gaining alterations to federal consent decrees that have hamstrung the State's ability to effectively manage the program in recent years. In addition, certain operational reforms are underway, including returning managed care contractors to risk arrangements, upgrading edits in the pharmacy point of sale system, negotiating settlements with the Centers for Medicare and Medicaid Services (CMS) on current funding arrangements and prior disallowances. These reform strategies will provide the State a greater ability to control Medicaid spending. In addition, the Governor has established a Healthcare Safety Net that will be geared at strengthening the delivery of health care services at county health departments, community and faith based clinics, safety net hospitals, and other healthcare outlets. This program also includes pharmaceutical and mental health components. The Safety Net program is intended to provide options to citizens who have been disenrolled from TennCare.



As a result of the devastation to the Gulf Coast states in the aftermath of Hurricanes Katrina and Rita, thousands of evacuees have fled to Tennessee seeking interim housing. With more than 18,000 individuals and families relocating to Tennessee from Louisiana and Mississippi, the State has placed over 3,200 families (8,500 individuals) in interim housing through the State's Interim Shelter Program. Under an emergency disaster declaration for Tennessee, the State is reimbursed 100 percent for all eligible costs incurred related to evacuee housing by the Federal Emergency Management Agency. Eligible costs cover housing leased at the fair market rate as well as all related costs, such as utility deposits, utilities, essential furnishings and administrative expenses.

Beginning in the 2005-2006 fiscal year, the Legislature approved funding to expand the voluntary pre-kindergarten program. The program is funded from \$25 million in estimated recurring excess net lottery proceeds. The goal is to eventually integrate this program into the State's education funding formula. In addition, a change in the funding formula and an increase in appropriations to the Basic Education Program will allow funding for at-risk students across the State.

The past legislative session restored one half of the state shared taxes paid to local governments that had been previously reduced. It is the intent of the Governor to restore the remaining state shared taxes in the upcoming legislative session.

New legislation was passed using the recommendations from a special task force to expand the State's attack on methamphetamine abuse. The new law included limits on the sale of cold and sinus products and increased the criminal penalties associated with meth use.

The State is in the process of procuring software and an integrator for implementation of the first phase of an Enterprise Resource Planning (ERP) system. ERP is designed to update and improve many of the State's administrative business processes. ERP will integrate functions such as human resources, payroll, benefits, financials, and procurement and will eliminate many of the State's legacy administrative systems.

New accounting standards have been issued that will require state and local government employers to account for Other Postemployment Benefits (OPEB), benefits other than pensions, provided to employees by recognizing an obligation in the government-wide financial statements if benefits promised to employees are not advance funded.

The State sponsors four healthcare plans that are affected by these accounting standards—Medicare Supplement, Employee Group, Teacher Group, and Local Government Group. The plans are operated on a *pay-as-you-go* basis, i.e., claims benefits for healthcare plan participants are paid as they occur. Although conceptually similar to the pension plan benefits, moneys have not been set aside to pay future claims that arise when active employees retire. The portion of (active and retired) employees' healthcare premiums for which the State is responsible is estimated and budgeted for each in the appropriate agency's budget.

In June 2005, the State issued a Request for Proposals (RFP) for Actuarial Services. The services include an actuarial valuation in accordance with Actuarial Standards of Practice for the State's OPEB (healthcare benefits). The actuary has calculated the Annual Required Contributions (ARC) and the Total OPEB Obligation for each of the four plans. The actuary also provided an analysis of the impact of the OPEB standards providing the State chooses to remain on a *pay-as-you-go* basis to fund claims, the impact if the State chooses to advance fund the obligation and to provide ideas on how the State may minimize the financial impact of the GASB OPEB standards. For all four plans, the actuarial report estimated the Annual Required Contribution at \$301.322 million and the Total OPEB Obligation (which would be amortized over 30 years) at \$3.386 billion. The State is not responsible for amounts attributable to the Local Government Plan or the active employees in the Teacher Group Plan.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the State of Tennessee's finances for all those with an interest in the State's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Department of Finance and Administration, Division of Accounts, 312 8<sup>th</sup> Avenue North, Suite 1400, Nashville, TN 37243.

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# **BASIC FINANCIAL STATEMENTS**

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State of Tennessee  
Statement of Net Assets  
June 30, 2005

(Expressed in Thousands)

	Primary Government			Total Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 2,095,272	\$ 380,608	\$ 2,475,880	\$ 1,509,365
Cash on deposit with fiscal agent		684,822	684,822	
Investments	217,526		217,526	1,096,778
Investments with fiscal agent				370
Receivables, net	2,319,307	117,714	2,437,021	426,223
Internal balances	7,679	(7,679)		
Due from primary government				10,718
Due from component units	72,417	17	72,434	
Inventories, at cost	26,293		26,293	13,728
Prepayments	199		199	12,992
Loans receivable, net	18,514	394,126	412,640	2,005,469
Lease receivable	14,082		14,082	
Deferred charges and other	3,871	49	3,920	20,699
Restricted assets:				
Cash and cash equivalents	24,482		24,482	9,795
Investments				203,457
Receivables, net				2,367
Capital assets:				
Land, at cost	1,083,091		1,083,091	154,337
Infrastructure	16,404,789		16,404,789	216,158
Structures and improvements, at cost	1,720,603		1,720,603	2,726,950
Machinery and equipment, at cost	542,678		542,678	736,973
Less-Accumulated depreciation	(1,025,236)		(1,025,236)	(1,688,429)
Construction in progress	1,149,728		1,149,728	217,103
Total assets	<u>24,675,295</u>	<u>1,569,657</u>	<u>26,244,952</u>	<u>7,675,053</u>
<b>Liabilities</b>				
Accounts payable and other current liabilities	1,307,281	46,640	1,353,921	287,434
Due to primary government				72,434
Due to component units	10,718		10,718	
Unearned revenue	343,719	6,512	350,231	117,730
Payable from restricted assets	5,115		5,115	
Other	5,999		5,999	24,789
Noncurrent liabilities:				
Due within one year	214,488	1,684	216,172	474,919
Due in more than one year	1,493,931	3,632	1,497,563	2,863,466
Total liabilities	<u>3,381,251</u>	<u>58,468</u>	<u>3,439,719</u>	<u>3,840,772</u>
<b>Net assets</b>				
Invested in capital assets, net of related debt	19,406,978		19,406,978	1,706,918
Restricted for:				
Wildlife Resources	20,439		20,439	
Capital projects	19,368		19,368	40,494
Lottery scholarships	255,111		255,111	
Single family bond programs				421,584
Sewer loans		549,390	549,390	
Unemployment compensation		778,624	778,624	
Drinking water loans		61,247	61,247	
Other	33,471		33,471	304,942
Permanent:				
Expendable	15,490		15,490	190,471
Nonexpendable	236,961		236,961	571,559
Unrestricted	<u>1,306,226</u>	<u>121,928</u>	<u>1,428,154</u>	<u>598,313</u>
Total net assets	<u>\$ 21,294,044</u>	<u>\$ 1,511,189</u>	<u>\$ 22,805,233</u>	<u>\$ 3,834,281</u>

The notes to the financial statements are an integral part of this statement.

State of Tennessee  
Statement of Activities  
For the Year Ended June 30, 2005

(Expressed in Thousands)

<b><u>Functions/Programs</u></b>	<b><u>Expenses</u></b>	<b><u>Program Revenues</u></b>		
		<b><u>Charges for Services</u></b>	<b><u>Operating Grants and Contributions</u></b>	<b><u>Capital Grants and Contributions</u></b>
<b>Primary Government:</b>				
Governmental activities:				
General government	\$ 596,016	\$ 380,679	\$ 65,559	\$ 276
Education	5,158,369	13,568	1,068,921	
Health and social services	11,522,061	942,909	7,190,529	
Law, justice and public safety	1,090,779	316,337	108,704	562
Recreation and resources development	423,342	140,227	112,954	4,836
Regulation of business and professions	113,902	115,556	2,372	
Transportation	698,450	15,494	228,244	514,416
State shared taxes paid to local governments	683,925			
Interest on long-term debt	42,902			
	<u>20,329,746</u>	<u>1,924,770</u>	<u>8,777,283</u>	<u>520,090</u>
Total governmental activities				
Business-type activities:				
Employment security	476,646	463,385	67,067	
Insurance programs	430,568	462,441	2,186	
Loan programs	1,909	12,878	31,244	
Other	2,498	2,593	39	
	<u>911,621</u>	<u>941,297</u>	<u>100,536</u>	
Total business-type activities				
Total primary government	\$ <u>21,241,367</u>	\$ <u>2,866,067</u>	\$ <u>8,877,819</u>	\$ <u>520,090</u>
<b>Component units:</b>				
Higher education institutions	\$ 3,163,865	\$ 985,519	\$ 1,038,932	\$ 66,626
Loan programs	353,011	145,225	198,022	
Lottery program	783,199	787,309	23	
Other	84,502	21,495	58,406	558
	<u>4,384,577</u>	<u>1,939,548</u>	<u>1,295,383</u>	<u>67,184</u>
Total component units				

General revenues:

Taxes:

Sales and use

Fuel

Business

Other

Payments from primary government

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Miscellaneous

Contributions to permanent funds

Transfers

Total general revenues, contributions, and transfers

Change in net assets

Net assets, July 1

Net assets, June 30

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (149,502)		\$ (149,502)	
(4,075,880)		(4,075,880)	
(3,388,623)		(3,388,623)	
(665,176)		(665,176)	
(165,325)		(165,325)	
4,026		4,026	
59,704		59,704	
(683,925)		(683,925)	
(42,902)		(42,902)	
<u>(9,107,603)</u>		<u>(9,107,603)</u>	
	\$ 53,806	53,806	
	34,059	34,059	
	42,213	42,213	
	<u>134</u>	<u>134</u>	
	<u>130,212</u>	<u>130,212</u>	
<u>(9,107,603)</u>	<u>130,212</u>	<u>(8,977,391)</u>	
			\$ (1,072,788)
			(9,764)
			4,133
			<u>(4,043)</u>
			<u>(1,082,462)</u>
6,099,159		6,099,159	
846,826		846,826	
2,396,141		2,396,141	
514,938		514,938	
			1,149,564
46,807		46,807	25,730
30,361		30,361	21,191
209,226		209,226	3,809
468		468	43,052
(21,062)	21,062		
<u>10,122,864</u>	<u>21,062</u>	<u>10,143,926</u>	<u>1,243,346</u>
1,015,261	151,274	1,166,535	160,884
<u>20,278,783</u>	<u>1,359,915</u>	<u>21,638,698</u>	<u>3,673,397</u>
<u>\$ 21,294,044</u>	<u>\$ 1,511,189</u>	<u>\$ 22,805,233</u>	<u>\$ 3,834,281</u>



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# GOVERNMENTAL FUND FINANCIAL STATEMENTS

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General Fund – The General Fund is maintained to account for all governmental financial resources and transactions not accounted for in another fund.

Education Fund - This fund is maintained to account for revenues and expenditures associated with programs involving the Departments of Education and Higher Education. Funding for these programs is accomplished primarily from the dedicated sales and services taxes and federal monies received from the U. S. Department of Education.

Nonmajor Governmental Funds – Nonmajor governmental funds are presented by fund type in the supplementary section.

State of Tennessee  
Balance Sheet  
Governmental Funds  
June 30, 2005

(Expressed in Thousands)

	General	Education	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 927,727	\$ 9	\$ 734,266	\$ 1,662,002
Investments			217,526	217,526
Receivables, net	1,607,092	495,139	214,219	2,316,450
Due from other funds	75,374	6	2,188	77,568
Due from component units	3,510	67,588	876	71,974
Inventories, at cost	12,201		6,294	18,495
Prepayments	19		4	23
Deferred charges and other	2,759		4,016	6,775
Loans receivable, net	130		18,384	18,514
Leases receivable	10,759			10,759
Restricted assets:				
Cash and cash equivalents			24,482	24,482
Total assets	\$ 2,639,571	\$ 562,742	\$ 1,222,255	\$ 4,424,568
<b>Liabilities and fund balances</b>				
Liabilities:				
Accounts payable and accruals	\$ 953,392	\$ 128,992	\$ 128,688	\$ 1,211,072
Due to other funds	17,540	67,263	1,867	86,670
Due to component units	8,128	367	2,223	10,718
Unearned revenue	327,931	62,091	75,326	465,348
Payable from restricted assets			5,115	5,115
Other	396		5,603	5,999
Total liabilities	1,307,387	258,713	218,822	1,784,922
Fund balances:				
Reserved for:				
Related assets	18,770		6,295	25,065
Encumbrances and contracts	8,243	667	141,647	150,557
Continuing appropriations	410,548	38,801		449,349
Specific purposes:				
Title and registration system	24,086			24,086
Judicial information systems	13,840			13,840
Alcohol drug addiction treatment	9,330			9,330
Commerce and Insurance regulatory boards	14,530			14,530
Lottery scholarships		255,111		255,111
Construction projects			373,854	373,854
Wildlife Resources			28,967	28,967
Environmental programs			43,650	43,650
Job skills			21,868	21,868
Enhanced 911 service			30,920	30,920
Parks acquisition			17,994	17,994
Community development			13,943	13,943
Other specific purposes	95,058	9,450	71,794	176,302
Permanent funds:				
Expendable			15,490	15,490
Nonexpendable			236,961	236,961
Unreserved:				
Designated for revenue fluctuations	275,400			275,400
Designated for other specific purposes	462,255		50	462,305
Undesignated	124			124
Total fund balances	1,332,184	304,029	1,003,433	2,639,646
Total liabilities and fund balances	\$ 2,639,571	\$ 562,742	\$ 1,222,255	

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	19,451,716
Deferred charges are not available to pay for current-period expenditures and are therefore not reported in the funds.	399
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	157,639
Internal Service Funds are used by management to charge the costs of various internal operations to individual funds. The assets and liabilities of Internal Service Funds are included in the governmental activities in the Statement of Net Assets.	494,622
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,449,978)
Net assets of governmental activities	\$ 21,294,044

The notes to the financial statements are an integral part of this statement.

State of Tennessee  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	General	Education	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes:				
Sales	\$ 2,518,446	\$ 3,493,573	\$ 79,528	\$ 6,091,547
Fuel	13,548		831,819	845,367
Business	2,162,611	141,437	131,401	2,435,449
Other	504,238	135	27,112	531,485
Licenses, fines, fees, and permits	181,070	1,782	357,149	540,001
Interest on investments	29,101		17,121	46,222
Federal	7,439,578	817,788	731,321	8,988,687
Departmental services	2,252,108	9,453	99,330	2,360,891
Other	252,937	242,763	6,374	502,074
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	15,353,637	4,706,931	2,281,155	22,341,723
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Expenditures</b>				
Current:				
General government	406,075		19,168	425,243
Education		5,093,451	6,696	5,100,147
Health and social services	12,518,297			12,518,297
Law, justice and public safety	1,104,276		5,543	1,109,819
Recreation and resources development	320,828		170,853	491,681
Regulation of business and professions	63,516		56,104	119,620
Transportation			1,411,906	1,411,906
State shared taxes paid to local governments	394,490		289,435	683,925
Debt service:				
Principal			89,474	89,474
Interest			43,455	43,455
Debt issuance costs			2,159	2,159
Capital outlay			119,730	119,730
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	14,807,482	5,093,451	2,214,523	22,115,456
	<hr/>	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over (under) expenditures	546,155	(386,520)	66,632	226,267
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Other financing sources (uses)</b>				
Bonds and commercial paper issued			52,979	52,979
Refunding Bond Proceeds			355,053	355,053
Refunding Bond Premium			31,929	31,929
Refunding Payment to Escrow			(386,261)	(386,261)
Transfers in	109,651	525,537	177,698	812,886
Transfers out	(675,048)	(3,484)	(187,604)	(866,136)
	<hr/>	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(565,397)	522,053	43,794	450
	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balances	(19,242)	135,533	110,426	226,717
Fund balances, July 1	1,351,426	168,496	893,007	2,412,929
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances, June 30	\$ 1,332,184	\$ 304,029	\$ 1,003,433	\$ 2,639,646
	<hr/>	<hr/>	<hr/>	<hr/>

The notes to the financial statements are an integral part of this statement.

State of Tennessee  
Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances of Governmental Funds  
To the Statement of Activities  
For the Year Ended June 30, 2005

(Expressed in Thousands)

Net changes in fund balances - total governmental funds	\$	226,717
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However in the Statement of Activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year.		763,966
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(54,472)
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The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		37,022
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(36,952)
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Internal service funds are used by management to charge the cost of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities.		78,980
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Changes in net assets of governmental activities	\$	1,015,261
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The notes to the financial statements are an integral part of this statement.

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# PROPRIETARY FUND FINANCIAL STATEMENTS

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Sewer Treatment Loan – Created in 1987, this fund provides loans to local governments and utility districts for the construction of sewage treatment facilities. The initial sources of the monies are federal grants and state appropriations.

Employment Security Fund - This fund is maintained to account for the collection of unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants. Funds are also received from the federal government for local office building construction, supplemental unemployment programs and work incentive payments. As required by law, all funds not necessary for current benefit payments are placed on deposit with the U.S. Treasury. Interest earned from these monies is retained in the fund. Administrative and operational expenses incurred by the Department of Labor and Workforce Development are expenditures of the General Fund.

Nonmajor Enterprise Funds – Nonmajor Enterprise Funds are presented in the supplementary section.

Internal Service Funds – Internal Service Funds are presented in the supplementary section.



State of Tennessee  
Statement of Net Assets  
Proprietary Funds  
June 30, 2005

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 212,108		\$ 168,500	\$ 380,608	\$ 433,270
Cash on deposit with fiscal agent		\$ 684,822		684,822	
Receivables:					
Accounts receivable			1,355	1,355	3,159
Interest	32	4,172		4,204	
Loans receivable-current	19,465		4,665	24,130	
Other		112,155		112,155	
Due from other funds		279		279	1,736
Due from component units		7	10	17	443
Inventory					7,798
Prepaid expenses					176
Total current assets	<u>231,605</u>	<u>801,435</u>	<u>174,530</u>	<u>1,207,570</u>	<u>446,582</u>
Noncurrent assets:					
Deferred charges			49	49	427
Due from other funds					1,167
Loans receivable	318,124		51,872	369,996	
Lease receivable					3,021
Capital assets:					
Land, at cost					54,443
Structures and improvements, at cost					454,557
Machinery and equipment, at cost					242,588
Less-accumulated depreciation					(327,785)
Construction in progress					134
Total capital assets, net of accumulated depreciation					<u>423,937</u>
Total noncurrent assets	<u>318,124</u>		<u>51,921</u>	<u>370,045</u>	<u>428,552</u>
Total assets	<u>549,729</u>	<u>801,435</u>	<u>226,451</u>	<u>1,577,615</u>	<u>875,134</u>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable and accruals	339	10,982	35,352	46,673	70,123
Due to other funds		7,958	6	7,964	1,036
Lease obligations payable					114
Bonds payable-current			1,645	1,645	13,263
Unearned revenue		3,871	2,641	6,512	36,010
Other					30,086
Total current liabilities	<u>339</u>	<u>22,811</u>	<u>39,644</u>	<u>62,794</u>	<u>150,632</u>
Noncurrent liabilities:					
Lease obligations payable					632
Commercial paper payable					51,651
Bonds payable, net			3,587	3,587	114,454
Other noncurrent liabilities			45	45	63,143
Total noncurrent liabilities			<u>3,632</u>	<u>3,632</u>	<u>229,880</u>
Total liabilities	<u>339</u>	<u>22,811</u>	<u>43,276</u>	<u>66,426</u>	<u>380,512</u>
<b>Net assets</b>					
Invested in capital assets, net of related debt					243,823
Restricted for unemployment compensation		778,624		778,624	
Restricted for sewer loans	549,390			549,390	
Restricted for drinking water loans			61,247	61,247	
Unrestricted			121,928	121,928	250,799
Total net assets	<u>\$ 549,390</u>	<u>\$ 778,624</u>	<u>\$ 183,175</u>	<u>\$ 1,511,189</u>	<u>\$ 494,622</u>

The notes to the financial statements are an integral part of this statement.

State of Tennessee  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2005  
  
(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	
<b>Operating revenues</b>					
Charges for services	\$ 11,541		\$ 3,921	\$ 15,462	\$ 403,226
Investment income	4,101		821	4,922	
Premiums		\$ 463,385	462,441	925,826	595,694
Other			9	9	7
Total operating revenues	15,642	463,385	467,192	946,219	998,927
<b>Operating expenses</b>					
Personal services			827	827	54,876
Contractual services	941		35,494	36,435	228,569
Materials and supplies			874	874	75,267
Rentals and insurance			136	136	44,388
Interest			336	336	
Depreciation and amortization			10	10	32,987
Benefits		473,126	393,769	866,895	518,938
Other		3,520	2,563	6,083	4,998
Total operating expenses	941	476,646	434,009	911,596	960,023
Operating income (loss)	14,701	(13,261)	33,183	34,623	38,904
<b>Nonoperating revenues (expenses)</b>					
Taxes					4
Operating grants	19,966	34,067	6,331	60,364	
Interest income		33,000	2,225	35,225	6,088
Interest expense					(7,412)
Total nonoperating revenues (expenses)	19,966	67,067	8,556	95,589	(1,320)
Income (loss) before contributions and transfers	34,667	53,806	41,739	130,212	37,584
Capital contributions					9,208
Transfers in	3,529		17,533	21,062	32,188
Change in net assets	38,196	53,806	59,272	151,274	78,980
Net assets, July 1	511,194	724,818	123,903	1,359,915	415,642
Net assets, June 30	\$ 549,390	\$ 778,624	\$ 183,175	\$ 1,511,189	\$ 494,622

The notes to the financial statements are an integral part of this statement.

State of Tennessee  
Statement of Cash Flows  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2005

(continued on next page)

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	
<b>Cash flows from operating activities</b>					
Receipts from customers and users		\$ 471,458	\$ 468,194	\$ 939,652	\$ 262,895
Receipts from interfund services provided		1,783	330	2,113	757,184
Payments to suppliers	\$ (5)		(433,354)	(433,359)	(838,139)
Payments to employees			(829)	(829)	(54,892)
Payments for unemployment benefits		(474,449)		(474,449)	
Payments for interfund services used	(936)	(3,520)	(7,061)	(11,517)	(58,786)
Net cash from (used for) operating activities	(941)	(4,728)	27,280	21,611	68,262
<b>Cash flows from noncapital financing activities</b>					
Operating grants received	19,967	34,174	6,356	60,497	
Negative cash balance implicitly financed					75
Negative cash balance implicitly repaid		(189)		(189)	
Transfers in	3,529		17,533	21,062	32,188
Payments to component units			(25)	(25)	
Principal payments			(2,830)	(2,830)	
Interest paid			(392)	(392)	
Tax revenues received					4
Subsidy to borrowers			(34)	(34)	
Net cash from (used for) noncapital financing activities	23,496	33,985	20,608	78,089	32,267
<b>Cash flows from capital and related financing activities</b>					
Purchase of capital assets					(51,132)
Bond and commercial paper proceeds					38,966
Proceeds from sale of capital assets					2,961
Bond issuance cost					(59)
Principal payments					(13,377)
Interest paid					(7,551)
Net cash from (used for) capital and related financing activities					(30,192)
<b>Cash flows from investing activities</b>					
Loans issued	(22,721)		(8,496)	(31,217)	
Collection of loan principal	18,768		5,639	24,407	
Interest received	15,634	33,000	4,380	53,014	6,088
Net cash from (used for) investing activities	11,681	33,000	1,523	46,204	6,088
Net increase (decrease) in cash and cash equivalents	34,236	62,257	49,411	145,904	76,425
Cash and cash equivalents, July 1	177,872	622,565	119,089	919,526	356,845
Cash and cash equivalents, June 30	\$ 212,108	\$ 684,822	\$ 168,500	\$ 1,065,430	\$ 433,270

(continued from previous page)

State of Tennessee  
Statement of Cash Flows  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>					
Operating income (loss)	\$ 14,701	\$ (13,261)	\$ 33,183	\$ 34,623	\$ 38,904
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation and amortization			10	10	32,981
Provision for uncollectible accounts			(9)	(9)	
Loss on disposal of capital assets					(25)
Bond issuance cost					204
Investment income			(821)	(821)	
Charges for services	(11,541)		(1,329)	(12,870)	
Interest income	(4,101)			(4,101)	
Interest expense			336	336	
Subsidy to borrowers			34	34	
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable		10,132	1,174	11,306	884
(Increase) decrease in due from other funds		20		20	571
(Increase) decrease in due from component units		4	(9)	(5)	174
(Increase) decrease in inventories			12	12	(809)
(Increase) decrease in prepaid expenses					(62)
Increase (decrease) in accounts payable		(288)	(5,803)	(6,091)	(8,509)
Increase (decrease) in due to other funds		(3)	1	(2)	75
Increase (decrease) in due to component units		(6)		(6)	
Increase (decrease) in unearned revenue		(1,326)	501	(825)	3,874
Total adjustments	(15,642)	8,533	(5,903)	(13,012)	29,358
Net cash provided by (used for) operating activities	\$ (941)	\$ (4,728)	\$ 27,280	\$ 21,611	\$ 68,262
<b>Noncash investing, capital and financing activities</b>					
Contributed capital assets					\$ 9,200
Bond refunding proceeds					43,317
Bond refunding premium					4,630
Bond refunding proceeds to escrow agent					(47,831)
Capital asset acquired by capital lease					436
Total noncash investing, capital and financing activities					\$ 9,752

The notes to the financial statements are an integral part of this statement.

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# **FIDUCIARY FUNDS FINANCIAL STATEMENTS**

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Pension (and other Employee Benefit) Trust Funds – These are presented by fund in the supplementary section.

Investment Trust Fund – This fund was created in July 1980 to account for local government deposits with the state treasurer and the related interest earnings. Through this program, the participating local governments achieve higher investment income by pooling their funds than they could realize individually.

Private-Purpose Trust Funds – These are presented by fund in the supplementary section.

Agency Funds – These are presented by fund in the supplementary section.



State of Tennessee  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2005

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund	Private-Purpose Trust Funds	Agency Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 805,160	\$ 569,841	\$ 40,201	\$ 308,262
Receivables:				
Taxes			51	282,929
Interest and dividends	167,393	4,282	432	
Due from sale of investments	28,752		60	
Foreign currency receivable	177,750			
Due from other governments	29,314			
Real estate income	1,398			
Other	18,807			
Total receivables	423,414	4,282	543	282,929
Due from other funds	6,197		9	8,714
Due from component units	5,524			52
Investments, at fair value:				
Short-term securities	231,988	709,999		
Government bonds	11,686,604		38,933	
Corporate bonds	2,520,973			
Corporate stocks	11,276,630			
Mutual funds			13,339	
Real estate	484,144			
Total investments	26,200,339	709,999	52,272	
Total assets	27,440,634	1,284,122	93,025	599,957
<b>Liabilities</b>				
Accounts payable and accruals	50,656		152	528,459
Foreign currency payable	173,117			
Amounts held in custody for others				71,498
Total liabilities	223,773		152	599,957
<b>Net assets</b>				
Held in trust for:				
Pension benefits	27,216,262			
Employees' flexible benefits	599			
Pool participants		1,284,122		
Individuals, organizations and other governments			92,873	
Total net assets	\$ 27,216,861	\$ 1,284,122	\$ 92,873	\$ -

The notes to the financial statements are an integral part of this statement.

State of Tennessee  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust	Private-Purpose Trust Funds
<b>Additions</b>			
Contributions:			
Members	\$ 222,304		
Employers	448,154		
Federal			\$ 8,478
Political subdivisions	181,096		
Private			8,027
Other			4,624
Total contributions	851,554		21,129
Investment income:			
Net increase in fair value of investments	938,347		808
Interest	641,965	\$ 30,547	2,286
Dividends	254,618		
Real estate income	31,131		
Total investment income	1,866,061	30,547	3,094
Less: Investment expenses	15,694		
Administrative fee		710	
Net investment income	1,850,367	29,837	3,094
Capital share transactions:			
Shares sold		3,829,956	
Less: Shares redeemed		4,023,674	
Net capital share transactions		(193,718)	
Total additions	2,701,921	(163,881)	24,223
<b>Deductions</b>			
Annuity benefits:			
Retirement benefits	850,297		
Cost of living	173,708		
Death benefits	4,911		
Other benefits	6,636		13,376
Refunds	30,816		3,709
Administrative expenses	5,746		354
Total deductions	1,072,114		17,439
Change in net assets held in trust for:			
Pension benefits	1,629,746		
Employees' flexible benefits	61		
Individuals, organizations and other governments		(163,881)	6,784
Net assets, July 1	25,587,054	1,448,003	86,089
Net assets, June 30	\$ 27,216,861	\$ 1,284,122	\$ 92,873

The notes to the financial statements are an integral part of this statement.

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**State of Tennessee**  
**Comprehensive Annual Financial Report**  
**For the Year Ended June 30, 2005**

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**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**NOTE 1 – Summary of significant accounting policies**

**A. Financial reporting entity**

Introduction - As required by generally accepted accounting principles, these financial statements present the primary government (the State) and its component units, entities for which the State is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the primary government.

Discretely presented component units

1. The Tennessee Student Assistance Corporation (TSAC) (Governmental Fund Type) is responsible for guaranteeing student loans under federal programs and administering federal and state grants and loans to students. The majority of the Board is either appointed by the Governor or are state officials. TSAC's budget is approved by the State.
2. The Community Services Agencies (CSAs) (Governmental Fund Types) listed below are to provide a mechanism to facilitate the provision of services for children and other citizens in need of services from state agencies:

Davidson County Community Services Agency  
Knox County Community Services Agency  
Shelby County Community Services Agency  
Hamilton County Community Services Agency  
Northeast Community Services Agency  
East Tennessee Community Services Agency  
Upper Cumberland Community Services Agency  
Southeast Community Services Agency  
Mid-Cumberland Community Services Agency  
South Central Community Services Agency  
Northwest Community Services Agency  
Southwest Community Services Agency

The Boards for these CSAs are appointed by the Governor and the budget must be approved by the State.

3. The Tennessee Housing Development Agency (Proprietary Fund Type) is responsible for making loans and mortgages to qualified sponsors, builders, developers and purchasers of low and moderate income family dwellings. The Board of the agency consists of state officials, appointees of the Governor, and appointees of the Speakers of the House and Senate. The agency budget is approved by the State.
4. The Tennessee Education Lottery Corporation (Proprietary Fund Type) is responsible for the operation of a state lottery with net proceeds to be given to the State to be used for education programs and purposes in accordance with the Constitution of Tennessee. The corporation is governed by a board of directors composed of seven directors appointed by the Governor.
5. The Tennessee Board of Regents (Proprietary Fund Type) is responsible for the operation of six universities, thirteen community colleges and twenty-seven technology centers. The Board is comprised of state officials and appointees by the Governor and the State provides a substantial amount of funding.
6. The University of Tennessee Board of Trustees (Proprietary Fund Type) is responsible for the operation of the University of Tennessee, located primarily on four campuses across the State. The Board is appointed by the Governor and the State provides a substantial amount of the funding.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

7. The Tennessee Local Development Authority (Proprietary Fund Type) provides financing assistance to local governments through the issuance of bonds and notes. In addition, the Authority assists non-profit corporations in the construction of mental health, mental retardation, or alcohol and drug facilities. The majority of the Board consists of state officials; therefore, the State can impose its will on the Authority.
8. The Tennessee State Veterans' Homes Board (Proprietary Fund Type) is responsible for the operation of nursing homes for honorably discharged veterans of the United States armed forces. The Board is appointed by the Governor and its budget is approved by the State. In addition, the issuance of bonds must be approved by the State Funding Board.
9. The Child Care Facilities Corporation (Proprietary Fund Type) purpose is to create new child care slots in Tennessee by guaranteeing loans, making direct loans, and making grants. The Board is comprised primarily of state officials. The State must approve the budget of the Corporation.
10. The Tennessee State School Bond Authority (Proprietary Fund Type) finances projects for the University of Tennessee, Tennessee Board of Regents and the Tennessee Student Assistance Corporation. The Authority also finances improvement projects for qualifying K-12 schools in the State in conjunction with a federal government program. The Board of the Authority consists primarily of state officials; therefore, the State is able to impose its will on the organization.
11. The Tennessee Certified Cotton Growers' Organization (Proprietary Fund Type) was formed to aid in the eradication of the Boll Weevil. The majority of the Board is appointed by the Commissioner of the Department of Agriculture, and the State provides a substantial amount of funding.

Complete financial statements for each of the individual component units may be obtained at the following addresses:

Tennessee Housing Development Agency  
1114 Parkway Towers  
404 James Robertson Parkway  
Nashville, TN 37243

Tennessee Local Development Authority  
Suite 1600, James K. Polk Building  
Nashville, TN 37243

Tennessee State Veterans' Homes Board  
345 Compton Road  
Murfreesboro, TN 37130

Tennessee State School Bond Authority  
Suite 1600, James K. Polk Building  
Nashville, TN 37243

University of Tennessee  
Office of the Treasurer  
301 Andy Holt Tower  
Knoxville, TN 37996-0100

Tennessee Board of Regents  
1415 Murfreesboro Road, Suite 350  
Nashville, TN 37217

Tennessee Education Lottery Corporation  
Plaza Tower Metro Center  
200 Athens Way  
Nashville, TN 37228

All others may be obtained at the following address:  
Finance & Administration  
Division of Accounts  
14th Floor William R. Snodgrass Tennessee Tower  
312 Eighth Avenue North  
Nashville, TN 37243-0298



STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS (*Continued*)  
JUNE 30, 2005

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are typically recorded only when payment is due. Also, agency funds, custodial in nature, do not recognize revenues and expenditures and do not present the results of operations or have a measurement focus.

Sales taxes, petroleum and vehicular related taxes and fees, and gross receipt taxes are considered to be available if received in the first 60 days of the new fiscal year. Federal grants, departmental services, tobacco settlement monies, and interest associated with the current fiscal period are all considered to be available if received in twelve months. All other revenue items are considered to be measurable and available only when cash is received by the State.

The State reports the following major governmental funds:

The *general fund* is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *education fund* accounts for the financial resources associated with programs involving the Departments of Education and Higher Education.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

The State reports the following major proprietary funds:

The *sewer treatment loan fund* accounts for loans made to local governments and utility districts for the construction of sewage treatment facilities.

The *employment security fund* accounts for the collection of unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants.

Additionally, the State reports the following fund types:

*Internal service funds* account for services provided to other departments or agencies of the State, or to other governments, on a cost reimbursement basis.

The *fiduciary fund types* are used to account for resources legally held in trust.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of internal activity, interdepartmental revenues and expenditures (both direct and indirect expenditures), has been eliminated from the government-wide financial statements. An exception is that interfund services provided and used between functions have not been eliminated.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. Investment income of certain proprietary funds is classified as operating revenue because those transactions are a part of the funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, then, unrestricted resources as they are needed.

**D. Assets, liabilities, and net assets or equity**

1. Deposits and investments — The State's cash and cash equivalents includes demand accounts, petty cash and monies in cash management pools. The liquidity of the cash management pools is sufficient to cover any withdrawal request by a participant. This classification also includes short-term investments with a maturity date within three months of the date acquired by the State. These short-term investments, which are not part of the State Cash Pool, are stated at fair value. Investments in the State Cash Pool are stated at cost or amortized cost as this pool is a 2a7-like pool. Collateral, as required by law, is pledged by the various banks and government securities dealers to guarantee state funds placed with them. It is the State's policy to include cash management pools as cash.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

Investments not in the State Cash Pool are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values. Investment income consists of realized and unrealized appreciation or depreciation in the fair value of investments. Interest income is recognized when earned. Securities and security transactions are recorded in the financial statements on trade-date basis.

2. Receivables and payables — All outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All receivables are shown net of an allowance for uncollectibles. Receivables in the State's governmental and fiduciary funds primarily consist of taxes, interest, departmental services and federal revenues, see Note 1C.

3. Inventories and prepaid items — Inventories of materials and supplies are determined by physical count and are valued at cost, principally using the first-in/first-out (FIFO) method. The average cost method is used for the Highway Fund (a Special Revenue Fund) and Motor Vehicle Management, Central Stores and General Services Printing (Internal Service Funds). The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets — Proceeds of the State's general obligation commercial paper program that remain unspent at year end are classified as restricted cash on the Statement of Net Assets. The commercial paper program provides short-term financing for the State's capital projects.

Component units that issue revenue bonds – Tennessee Housing Development Authority, Tennessee State School Bond Authority, Tennessee Local Development Authority, and Veterans' Homes Board – report restricted cash and investments to 1) satisfy bond covenant requirements, 2) reflect unspent bond, commercial paper, or note proceeds, and 3) reflect resources set aside to meet future debt service payments.

5. Capital assets — Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, with the exception of infrastructure, are defined by the State as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of two years. Infrastructure assets are capitalized regardless of cost or useful life. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Capitalized assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capitalized assets, except for land and infrastructure, are depreciated over their useful lives.

The State holds certain assets such as works of art, historical documents, and artifacts that have not been capitalized or depreciated because the collections are protected and preserved for exhibition, education, or research and are considered to have inexhaustible useful lives.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

The State has elected to apply the modified approach to accounting for infrastructure—roadways and bridges. The modified approach is an alternative to depreciation that may be applied to infrastructure capital assets that meet certain requirements. Under the modified approach, depreciation expense is not recorded for these assets. Instead, costs for both maintenance and preservation of these assets should be expensed in the period incurred. Additions and improvements are capitalized.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	20
Machinery and Equipment	3-20

6. Compensated absences — It is the State's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the State's policy is to pay this only if the employee is sick or upon death. All vacation pay is accrued when earned in the government-wide and proprietary fund financial statements.
7. Long-term obligations — In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the unamortized bond premium or discount and, when applicable, the deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.
- In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.
8. Restricted net assets — Restricted net assets consist of net assets in which constraints are placed on the use of those net assets by either external entities, such as creditors (debt covenants), grantors, contributors, and laws or regulations of other governments; or by constitutional provisions or enabling legislation of the State. Restrictions imposed by enabling legislation could be changed by future legislative action. Of the \$1.97 billion restricted by the primary government, \$287 million was by enabling legislation.
9. Fund equity — In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.
10. Fiscal year end — The fiscal year end of the primary government and component units is June 30, except for the Dairy Promotion Board, a special revenue fund; which has a December 31 year end. Also, the Certified Cotton Growers' Organization, a component unit, has a December 31 year end.
11. Comparative data/reclassifications — Comparative total data for the prior year have not been presented.

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2005

**NOTE 2 – Reconciliation of government-wide and fund financial statements**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds* and *net assets—governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$1,449.978 million difference are as follows (expressed in thousands):

Bonds payable	\$ 903,240
Plus: Premium on bonds issued (to be amortized as interest expense)	39,804
Less: Deferred charge for issuance costs (to be amortized over life of debt)	(3,051)
Less: Deferred charge for bond refundings (to be amortized as interest expense)	(25,932)
Commercial paper payable	116,925
Accrued interest payable	13,057
Capital leases payable	484
Claims and judgments	207,330
Compensated absences	191,340
Long-term accounts payable	<u>6,781</u>
Net adjustment to reduce <i>fund balance—total governmental funds</i> to arrive at <i>net assets—governmental activities</i>	<u>\$ 1,449,978</u>

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense.” The details of this \$763.966 million difference are as follows (expressed in thousands):

Capital outlay	\$ 815,610
Depreciation expense	<u>(51,644)</u>
Net adjustment to increase <i>net changes in fund balances –</i> <i>total governmental funds</i> to arrive at <i>changes in net assets</i> <i>of governmental activities</i>	<u>\$ 763,966</u>

Another element of that reconciliation states that “The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$37.022 million difference are as follows (expressed in thousands):

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

Debt issued or incurred:	
Issuance of general obligation refunding bonds	\$ 355,053
Issuance of commercial paper	53,534
Bond premium capitalized	31,929
Bond cost of issuance capitalized	(1,803)
Debt extinguished or reduced:	
General obligation bonds/payments to escrow	(386,261)
General obligation debt	<u>(89,474)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 37,022</u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$36.952 million difference are as follows (expressed in thousands):

Compensated absences	\$ 18,217
Claims and judgments	(62,851)
Accrued interest	(157)
Capital lease	(125)
Amortization of deferred charge	40
Loss on disposal of capital assets	82,302
Amortization of issuance costs	154
Amortization of bond premiums	(1,885)
Amortization of deferred amount on bond refunding	<u>1,257</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 36,952</u>

### NOTE 3 – Stewardship, compliance and accountability

#### A. Budgetary process

Legislation requires the Governor to present his proposed budget to the General Assembly at the beginning of each annual session. Annual budgets are adopted for the general fund, special revenue funds (except Fraud and Economic Crime, Community Development and Dairy Promotion Board), and debt service fund. The General Assembly enacts the budget through passage of specific departmental appropriations, the sum of which may not exceed estimated revenues. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the State's financial plan for the coming year.

Budgetary control is maintained at the departmental level. Budget revisions during the year, reflecting program changes or intradepartmental transfers of an administrative nature, may be affected with certain executive and legislative branch approval. Only the legislature, however, may transfer appropriations between departments.

Unencumbered appropriations lapse at the end of each fiscal year, with the encumbered appropriations being carried forward to the next year. In order to provide sufficient funding for several programs during the year, supplemental appropriations of \$42.740 million were required.

The State's annual budget is prepared on the modified accrual basis of accounting with several exceptions, principally the effect of encumbrance and contract obligations. Because these exceptions represent departures from generally accepted accounting principles (GAAP), actual amounts, in the accompanying budgetary comparison schedule, are presented on the budgetary basis.



**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

Encumbrance accounting is utilized for budgetary control purposes in governmental fund types. Encumbrances outstanding at year end are reported as reservations of fund balance for subsequent year expenditure.

**B. Deficit fund equity**

The Certified Cotton Growers' Organization, a component unit, has a total net asset deficit of \$19.943 million. This deficit occurred because a substantial amount of funds were borrowed to fund the balance of program costs. The monies borrowed are to be repaid by December 15, 2013.

**NOTE 4 – Accounting changes**

The following schedule enumerates adjustments for the fiscal year ending June 30, 2005 (expressed in thousands):

	6/30/2004 Net Assets <u>As Reported</u>	Prior Period Adjustments	6/30/2004 Net Assets <u>As Restated</u>
Government-wide statements:			
Primary Government			
Governmental activities	\$ 20,281,821	\$ (3,038)	\$ 20,278,783
Total primary government	<u>\$ 20,281,821</u>	<u>\$ (3,038)</u>	<u>\$ 20,278,783</u>
Government-wide statements:			
Component Units	\$ 3,755,493	\$ (82,096)	\$ 3,673,397
Total component units	<u>\$ 3,755,493</u>	<u>\$ (82,096)</u>	<u>\$ 3,673,397</u>

**Prior Period Adjustments**

Primary Government

Governmental activities

\$12.669 million is a correction of an error resulting from the overstatement of general capital assets in prior years because buildings demolished were not removed and certain buildings included in general capital assets should have been reported as Facilities Revolving Fund assets. Related accumulated depreciation was adjusted by \$5.053 million.

Facilities Revolving Fund - \$1.810 million is a correction of an error resulting from an understatement of capital assets in prior years because buildings were included in general capital assets that should have been reported as Facilities Revolving Fund assets. Additional errors in accumulated depreciation resulted in a net increase of \$2.768 million.

Component Units

University of Tennessee - \$59.326 million is a correction of an error resulting from an overstatement of pledges receivable in prior years.

University of Tennessee - \$22.770 million is a correction of an error resulting from a failure to increase accumulated depreciation in fiscal year 2004 after a reassessment of estimated building lives had been completed resulting in a decrease in net assets.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

**Change in Accounting Principle**

The State has early implemented the Governmental Accounting Standards Board's Statement No. 46, *Net Assets Restricted by Enabling Legislation*. This statement is an amendment of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The standard states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. As a result of implementing this statement, \$118.387 million is considered unrestricted in the General Fund and \$358.302 million in the Special Revenue Funds. There was no significant effect on component units.

The State has also implemented the Governmental Accounting Standards Board's Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of Statement No. 3). This statement establishes and modifies disclosure requirements related to investment risks - credit risk and concentrations of credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks – custodial credit risk and foreign currency risk.

**NOTE 5 – Detailed notes on all funds**

**A. Deposits and investments**

Primary Government

The State's cash includes deposits in demand accounts, petty cash and monies in cash management pools. State statutes provide that funds in the state treasury be invested by the State Treasurer. The State Pooled Investment Fund (SPIF) is established by *Tennessee Code Annotated*, Section 9-4-603 "for the purpose of receiving and investing any money in the custody of any officer or officers of the state unless prohibited by statute to be invested." Participants in the SPIF include the general fund of the State and any department or agency of the State which is required by court order, contract, state or federal law or federal regulation to receive interest on invested funds and which are authorized by the State Treasurer to participate in the SPIF. In addition, funds in the State of Tennessee Local Government Investment Pool (LGIP) investment trust fund are consolidated with the SPIF for investment purposes only. The primary oversight responsibility for the investment and operations of the SPIF rests with the Funding Board of the State of Tennessee (Funding Board).

The State Pooled Investment Fund is authorized by statute to invest funds in accordance with policy guidelines approved by the Funding Board. The current resolution of the Funding Board gives the Treasurer approval to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, bonds, notes, and treasury bills of the United States or other obligations guaranteed as to principal and interest by the United States or any of its agencies, repurchase agreements for obligations of the United States or its agencies, and securities lending agreements whereby securities may be loaned for a fee. Investments in derivative type securities and investments of high risk are prohibited. Prior to the adoption of the current investment policy on December 14, 2004, allowable investments also included obligations of the State of Tennessee pursuant to *Tennessee Code Annotated*, Section 9-4-602(b).

In addition to the funds in the State Pooled Investment Fund, the Tennessee Consolidated Retirement System (TCRS), a pension trust fund; the Baccalaureate Education System Trust (BEST), a private-purpose trust; and the Chairs of Excellence (COE) Trust, a permanent fund; are authorized by statutes to invest in long-term investments, including bonds, debentures, preferred stock and common stock, real estate and other good and solvent securities subject to the approval of the applicable boards of trustees.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

As of June 30, 2005, the State's investments for all funds were as follows (expressed in thousands):

**PENSION TRUST, POOLED INVESTMENT, AND OTHER FUNDS**  
**INVESTMENTS**

<u>Investment Type</u>	<u>Carrying Amount as of June 30, 2005</u>	<u>United States<sup>1</sup> Treasury/Agency</u>
Debt Investments		
U.S. Government		
U.S. Government Treasuries, Notes, Bonds	\$ 4,355,148	\$ 4,355,148
U.S. Government TIPS	1,539,429	1,539,429
U.S. Government Agencies	3,454,015	
Mortgage-Backed		
Government Pass-through	3,613,762	415,073
Corporate		
Corporate Bonds	1,951,544	
Corporate Asset-Backed	29,827	
Private Placements	150,081	
Yankee Bonds	39,780	
Supranationals	107,804	
Non-U.S. Fixed Income - Developed Markets		
Government/Sovereign	533,423	
Corporate	285,405	
Short Term		
Commercial Paper	1,764,558	
Agencies	543,891	
Total Debt Investments	<u>18,368,667</u>	<u>\$ 6,309,650</u>
Other Investments		
Equity		
U.S.	7,712,559	
Non-U.S.	3,688,347	
Real Estate	484,144	
Commingled Funds		
Money Market Funds	11,347	
Total Other Investments	<u>11,896,397</u>	
Total Investments	<u>\$ 30,265,064</u>	

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

PENSION TRUST, POOLED INVESTMENT, AND OTHER FUNDS  
INVESTMENTS (continued)

<u>Credit Quality Rating</u>					
<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>A1<sup>2</sup></u>	<u>Not Rated<sup>3</sup></u>
\$ 2,478,969				\$ 248,369	\$726,677
14,892					3,183,797
85,948	\$269,358	\$1,077,834	\$518,404		
	2,966	7,979	18,882		
9,996	69,988	27,705	42,392		
		9,641	30,139		
95,713	12,091				
354,114	74,956	104,353			
172,592	9,941	51,310	51,562		
				1,764,558	
					543,891
<u>\$ 3,212,224</u>	<u>\$ 439,300</u>	<u>\$1,278,822</u>	<u>\$ 661,379</u>	<u>\$ 2,012,927</u>	<u>\$ 4,454,365</u>

1. Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government and are not considered to have credit risk.
2. A1 is the highest rating category for short-term securities.
3. Includes securities that are implicitly guaranteed by the U.S. government but are not rated by Standard and Poor's or Moody's.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

1. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the State's investments in debt securities as of June 30, 2005, are included in the previous schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. State statutes provide a process for financial institutions desiring to act as state depositories to be approved by the State Treasurer. Statutes also provide for the Commissioner of Financial Institutions to advise, on a timely basis, the Treasurer and the Commissioner of Finance and Administration of the condition of each state bank and state chartered savings and loan association, including his recommendations regarding its condition and safety as a state depository. Similar provisions apply to federally chartered banks and savings and loan associations designated as state depositories. This process ensures that institutions whose financial status is uncertain are monitored for collateral sufficiency. All certificates of deposit are required by policy to be placed directly with state depositories. All repurchase agreements are done with primary dealers in government securities which have executed a master repurchase agreement with the State. The SPIF's investment policy requires a AAA credit quality rating for the purchase of obligations of instrumentalities that are not fully guaranteed by the United States government. Prime banker's acceptances must be issued by domestic banks with a minimum AA long-term debt rating or foreign banks with a AAA long-term debt rating by a majority of the rating services that have rated the issuer. The short-term debt rating must be at least A1 or the equivalent by all of the rating services that rate the issuer. Commercial paper should be rated in the highest tier by all rating agencies that rate the paper. Commercial paper on a credit rating agency's negative credit watch list cannot be purchased under the SPIF's investment policy. The policy requires that a credit analysis report on the corporation be prepared prior to acquisition of the commercial paper.

The SPIF is not registered with the Securities and Exchange Commission (SEC) as an investment company but, through its investment policy adopted by the Funding Board, operates in a manner consistent with the SEC's Rule 2a7 of the *Investment Company Act of 1940*. Rule 2a7 allows SEC registered mutual funds to use amortized cost to report net assets in computing share prices. Likewise, the SPIF uses amortized cost accounting measures to report investments and share prices. During the fiscal year ended June 30, 2005, the State had not obtained or provided any legally binding guarantees to support the value of participant shares. The State of Tennessee has not obtained a credit quality rating for the SPIF from a nationally recognized credit ratings agency.

The TCRS' investment policy specifies that bond issues subject for purchase are investment grade bonds rated in the four highest ratings by one of the recognized rating agencies. In addition, the policy states that private placements that do not have an active secondary market shall be thoroughly researched from a credit standpoint and shall be viewed by TCRS' investment staff as having the credit quality rating equivalent of an AA rating on a publicly traded issue. For short-term investments, the TCRS' investment policy provides for the purchase of only the highest quality debt issues. Commercial paper should be rated in the highest tier by all rating agencies which rate the paper, with a minimum of two ratings required. Commercial paper cannot be purchased if a rating agency has the commercial paper on a negative credit watch. The investment policy also requires preparation of a credit analysis report on the corporation prior to purchasing commercial paper.

The COE Trust's investment policy states that the majority of investments should be placed in high quality debt securities to produce adequate income with minimal risk. In addition, for short-term investments, the investment policy states that only the highest quality short-term debt issues should be purchased.

The BEST investment policy states that the trust may acquire securities which are rated within the four highest grades at the time of acquisition by any of the recognized rating agencies. In addition, the policy requires that only the highest quality short-term debt issues, including commercial paper with ratings of A1 or P1, may be purchased.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

2. Concentration of Credit Risk

A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event the issuer fails on its obligations. An objective stated in the SPIF's investment policy is that the investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Acquisitions are monitored by policy to assure that no more than twenty percent (20%) of the book value of the pool, at the date of acquisition, is invested in a single United States government agency security and that such acquisition does not cause the SPIF's aggregate United States government agency holdings to exceed forty percent (40%) of the total book value of the pool on such date. In addition, the SPIF's investment policy limits the book value of prime banker's acceptances to five percent (5%) of the total book value of the pool and limits such investments in any one commercial bank to the lesser of five percent (5%) of the portfolio's book value or \$25 million. Prime commercial paper investments are limited to five percent (5%) of the total portfolio book value invested in any one single issuing corporation and the total holdings of an issuer's paper should not represent more than five percent (5%) of the issuing corporation's total outstanding commercial paper, with the maximum amount of a specific corporation's commercial paper limited to \$100 million. Prime commercial paper shall not exceed forty percent (40%) of the total pool's book value. The TCRS' investment policy limits the maximum amount of a specific corporation's commercial paper that can be purchased to \$100 million. There are no other specific investment policies that limit the investments of the TCRS, the COE Trust, BEST or other state funds in any one issuer.

As of June 30, 2005, the combined SPIF, TCRS, COE Trust, BEST and other state funds held debt investments in certain organizations representing five percent (5%) or more of total investments, excluding those organizations whose issues are explicitly guaranteed by the United States government, and investments in mutual funds, external investment pools, and other pooled investments (expressed in thousands):

<u>Issuer Organization</u>	<u>Carrying Amount</u>	<u>Percentage</u>
Federal National Mortgage Association	\$ 3,458,932	11%
Federal Home Loan Mortgage Corporation	\$ 2,122,530	7%

3. Interest Rate Risk

Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The SPIF's investment policy with respect to maturity states that the dollar weighted average maturity of the pool shall not exceed ninety (90) days and that no investment may be purchased with a remaining maturity of greater than three hundred ninety-seven (397) calendar days. In addition, it is the intent of the Funding Board that the market value of the SPIF not deviate more than 0.5 percent from amortized cost. If it does, actions may include, but not be limited to, selling securities whose market value substantially deviates from amortized cost, and investing in securities with ninety (90) days or less to maturity. Collateralized certificates of deposit are limited by policy to maturities of one year or less. Agency variable rate notes are permitted by investment policy provided they are indexed to treasury bill, commercial paper, federal funds, LIBOR or the prime rates. It is the intent of the Funding Board that variable rate notes must move in the same direction as general money market rates. Prime banker's acceptances must have an original maturity of not more than two hundred seventy (270) days to be eligible for purchase, with the intent to hold to maturity. Prime commercial paper shall not have a maturity that exceeds one hundred eighty (180) days, and individual repurchase agreement transactions shall not have a maturity that exceeds ninety (90) days. The days to maturity on certificates of deposit ranged from 45 to 181 days at June 30, 2005. Interest rates on certificates of deposit held at June 30, 2005, ranged from 2.60% to 3.30%.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

As of June 30, 2005, the combined SPIF portfolio and other state cash deposits and investments had the following weighted average maturities (expressed in thousands):

**STATE POOLED INVESTMENT FUND**  
**WEIGHTED AVERAGE MATURITY**

<u>Deposit/Investment Type</u>	<u>Carrying Amount</u>	<u>Weighted Average Maturity (Months)</u>
U.S. Government Agencies	\$ 1,707,121	4.97
Commercial paper	\$ 1,270,827	0.27

The TCRS' investment policy does not specifically address limits on investment maturities. The fixed income portfolio, however, is benchmarked against the Citigroup Broad Investment Grade Index and tends to have a duration within a tight range around that index.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**DEBT INVESTMENTS**  
(expressed in thousands)

<u>Investment Type</u>	<u>Fair Value as of June 30, 2005</u>	<u>Effective Duration (years)</u>
Debt Investments		
U.S. Government		
U.S. Government Treasuries, Notes, Bonds	\$ 4,299,552	3.87
U.S. Government TIPS	1,539,429	4.00
U.S. Government Agencies	1,712,743	2.63
Mortgage-Backed		
Government Pass-through	3,589,366	2.84
Corporate		
Corporate Bonds	1,933,308	5.63
Corporate Asset-Backed	16,685	2.16
Private Placements	150,081	3.45
Yankee Bonds	39,780	8.03
Supranationals	107,804	3.43
Non-U.S. Fixed Income		
Developed Markets		
Government/Sovereign	533,423	6.95
Corporate	285,405	6.29
Short Term		
Commercial paper	493,731	0.03
Agencies	543,891	0.17
Total Debt Investments	<u>\$ 15,245,198</u>	

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

The investment policy for the COE Trust states that the maturity of its debt securities may range from short-term instruments, including investments in the State Pooled Investment Fund, to long-term bonds, with consideration of liquidity needs. However, the policy does not specifically address limits on investment maturities. The fixed income portfolio is benchmarked against the Lehman Government/Corporate Intermediate Index and tends to have a duration within a tight range around that index.

**CHAIRS OF EXCELLENCE**  
**DEBT INVESTMENTS**  
(expressed in thousands)

<u>Investment Type</u>	<u>Fair Value</u> <u>as of June 30, 2005</u>	<u>Effective</u> <u>Duration (years)</u>
Debt Investments		
U.S. Government		
U.S. Government Treasuries, Notes, Bonds	\$ 41,126	4.08
U.S. Government Agencies	24,581	3.17
Mortgage-Backed		
Government Pass-through	9,504	3.06
Corporate		
Corporate Bonds	18,236	4.23
Corporate Asset-Backed	<u>13,142</u>	2.66
Total Debt Investments	<u>\$ 106,589</u>	

The investment policy for BEST states that bonds generally will be purchased and held to maturity, but when necessary, the portfolio will be actively managed in times of volatile interest rate swings to shorten the average maturity and protect principal value. The fixed income portfolio is benchmarked against the Lehman Government/Corporate Intermediate Index and tends to have a duration within a tight range around that index.

**BACCALAUREATE EDUCATION SYSTEM TRUST, EDUCATIONAL SERVICES PLAN**  
**DEBT INVESTMENTS**  
(expressed in thousands)

<u>Investment Type</u>	<u>Fair Value</u> <u>as of June 30, 2005</u>	<u>Effective</u> <u>Duration (years)</u>
Debt Investments		
U.S Government		
U.S. Government Treasuries, Notes, Bonds	\$ 14,175	3.39
U.S. Government Agencies	9,866	2.25
Mortgage-Backed		
Government Pass-through	<u>14,892</u>	1.57
Total Debt Investments	<u>\$ 38,933</u>	

Asset-Backed Securities – The TCRS invests in mortgage-backed securities that are based on cash flows from interest and principal payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. The TCRS invests in these securities primarily to enhance returns by taking advantage of opportunities available in this sector of the securities markets. Investment terms related to these securities have been considered in the interest rate risk disclosure.



**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

4. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The TCRS' investment policy limits the asset allocation for international investments to twenty-five percent of total assets. The TCRS' exposure to foreign currency risk at June 30, 2005, was as follows (expressed in thousands):

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
FOREIGN CURRENCY-DENOMINATED INVESTMENTS

<u>Currency</u>	<u>Total Fair Value June 30, 2005</u>	<u>Fixed Income</u>	<u>Equity</u>	<u>Cash</u>
Australian Dollar	\$ 209,165	\$ 12,039	\$ 197,008	\$ 118
British Pound Sterling	990,301	78,452	911,846	3
Canadian Dollar	5,690		5,690	
Danish Krone	73,101		73,101	
Euro Currency	1,436,934	263,623	1,173,275	36
Hong Kong Dollar	88,767		87,638	1,129
Japanese Yen	1,240,158	447,300	792,359	499
New Zealand Dollar	5,552		5,552	
Norwegian Krone	29,000		29,000	
Singapore Dollar	34,482		34,378	104
Swedish Krona	121,748		121,748	
Swiss Franc	209,949		209,949	
Total	<u>\$ 4,444,847</u>	<u>\$ 801,414</u>	<u>\$ 3,641,544</u>	<u>\$ 1,889</u>

5. Derivatives

The international securities in the TCRS' portfolio expose the TCRS to potential losses due to a possible rise in the value of the US dollar. The TCRS investment managers can reduce foreign currency exposure by selling foreign currency forward contracts, at agreed terms and for future settlement, usually within a year. The manager will reverse the contract by buying the foreign currency before the settlement date. A gain (loss) on this transaction pair will hedge a loss (gain) on the currency movement of the international security. The TCRS can sell up to 80% of its foreign currency exposure into US dollars. The fair value of foreign currency forward contracts outstanding as of June 30, 2005, has been reflected in the financial statements.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

Component Units

The various component units are generally governed by the same State statutes as the State's policies described above.

1. University of Tennessee

The University is authorized by statute to invest funds in accordance with the University investment policies. Funds, other than endowment, annuity, and life income funds, invest similarly to the State policies. Endowment, annuity, and life income funds can be invested in equity securities and various other securities given prudent diversification.

Credit Risk

The University has no investment policy limiting its investment choice based on ratings issued by nationally recognized statistical rating agencies. The University's securities are rated by Moody's. As of June 30, 2005, the University's investments were rated as follows (expressed in thousands):

<u>Rated Debt Instruments</u>	<u>Fair Value</u>	<u>Aaa</u>	<u>Aa1</u>	<u>Aa2</u>	<u>Aa3</u>	<u>A1</u>
Cash Management Pool						
U.S. Treasuries	\$ 66,007	\$ 66,007				
U.S. Agencies	238,849	238,849				

Investments

U.S. Treasuries	\$ 7,688	\$ 7,637				
U.S. Agencies	21,389	19,240		\$ 2,149		
Corporate Bonds	20,377	1,028	\$ 639	724	\$ 4,225	\$ 5,997
Municipal Bonds	2,768	1,023		523		
Mutual Funds – Bonds	50,348		2,577	51	13,298	
Mortgages and Notes	1,176					
Total	<u>\$ 408,602</u>	<u>\$ 333,784</u>	<u>\$ 3,216</u>	<u>\$ 3,447</u>	<u>\$ 17,523</u>	<u>\$ 5,997</u>

(Continued)

<u>Rated Debt Instruments</u>	<u>A2</u>	<u>A3</u>	<u>Baa1</u>	<u>Baa2</u>	<u>Baa3</u>	<u>Unrated</u>
Cash Management Pool						
U.S. Treasuries						
U.S. Agencies						

Investments

U.S. Treasuries						\$ 51
U.S. Agencies						
Corporate Bonds	\$ 2,205	\$ 2,808	\$ 719	\$ 1,948		84
Municipal Bonds					\$ 65	1,157
Mutual Funds – Bonds						34,422
Mortgages and Notes						1,176
Total	<u>\$ 2,205</u>	<u>\$ 2,808</u>	<u>\$ 719</u>	<u>\$ 1,948</u>	<u>\$ 65</u>	<u>\$ 36,890</u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

Concentration of Credit Risk

The University places no limit on the amount that may be invested in any one issuer. More than five percent of the University's investments are invested in the following single issuers (expressed in thousands):

<u>Issuer</u>	<u>Fair Value</u>	<u>Percent of Total Investments</u>
Federal Home Loan Bank	\$ 134,109	17.23%
Federal National Mortgage Association	\$ 67,680	8.70%

Interest Rate Risk

The University does not have a formal policy that addresses interest rate risk. As of June 30, 2005, the University had the following debt investments and maturities (expressed in thousands):

	<u>Investment Maturities (in years)</u>				
<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>10+</u>
Cash Management Pool					
Cash Equivalents					
U.S. Treasury	\$ 66,007	\$ 10,511	\$ 55,496		
U.S. Agencies	238,849	50,796	188,053		
Investments					
U.S. Treasury	\$ 7,688	\$ 1,193	\$ 3,614	\$ 1,203	\$ 1,678
U.S. Agency	21,390	2,663	8,962	6,479	3,286
Corporate Bonds	20,378	2,689	8,750	8,939	
Municipal Bonds	2,769	162	534		2,073
Mortgages and Notes	1,176	25	608	543	
Bond Mutual Funds	<u>15,926</u>		<u>13,298</u>	<u>2,628</u>	
	<u>\$ 374,183</u>	<u>\$ 68,039</u>	<u>\$ 279,315</u>	<u>\$ 19,792</u>	<u>\$ 7,037</u>

University foundations' investments in the amount of \$121.808 million are not included in these disclosures because the foundations utilize private-sector accounting standards.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

2. Tennessee Board of Regents

Credit Risk

The System is authorized by statute to invest funds in accordance with the Tennessee Board of Regent's investment policies. Funds, other than endowment, invest similarly to the State policies. Endowment funds can be invested in equity securities and various other securities given prudent diversification. The System has no formal investment policy that limits its investment choices based on ratings issued by rating agencies. As of June 30, 2005, investments of the System and its foundations (that utilize governmental accounting standards) were rated as follows (expressed in thousands):

Rating by Nationally Recognized Statistical Rating Organization

<u>Investment Type</u>	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fitch</u>	<u>Amount</u>
Federal Farm Credit Mortgage		AAA	not rated	\$ 10
Federal Home Loan Banks	Aaa	AAA	not rated	23,203
		AAA	not rated	64
	Aaa	AAA	AAA	586
	Aaa	AAA	not rated	7,185
	Aaa	not rated	not rated	591
Federal Home Loan Mortgage	Aaa	AAA	not rated	6,700
	Aaa	AAA	AAA	640
	Aaa	not rated	not rated	302
Federal National Mortgage Association	Aaa	AAA	not rated	10,385
	Aaa	AAA	AAA	701
	Aaa	not rated	not rated	99
Federal Home Register	Aaa	AAA	not rated	572
Corporate bonds	Aaa	AAA	not rated	4,048
	Aaa	not rated	not rated	206
	Aa	AA	AA	304
	Aa	AA	not rated	24
	Aa	A	AA	637
	Aa	A	not rated	49
	Aa	not rated	not rated	900
	A	AA	not rated	17
	A	A	not rated	192
	A	not rated	not rated	949
	A	BBB	not rated	110
	A	BBB	BBB	27
	Baa	BBB	not rated	55
	Baa	A	not rated	8
	Baa	BBB	A	213
	Baa	not rated	not rated	108
	Ba	BB	not rated	124
	B	CCC	not rated	184
	not rated	AA	not rated	2,729
	not rated	not rated	BB	110
Tennessee Valley Authority	Aaa	not rated	not rated	184
Domestic individual bonds	Aaa	AAA	AAA	65
	Aa	AA	AA	48
	Aa	not rated	not rated	42
Commercial paper	P	A	F	6,144
	P	A	not rated	6,145
Mutual funds	not rated	not rated	not rated	3,234
Collateralized mortgage obligation	not rated	AAA	not rated	11

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

Interest Rate Risk

The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to interest rate risk. As of June 30, 2005, debt investments and maturities of the system and its foundations (that utilize governmental accounting standards) follow (expressed in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>Investment Maturities (in years)</u>		<u>More Than 10</u>
			<u>1 to 5</u>	<u>6 to 10</u>	
U.S. Treasury bonds	\$ 898		\$ 114	\$ 173	\$ 611
U.S. Treasury notes	43,213	\$ 40,861	2,352		
U.S. Treasury strips	6			6	
U.S. Treasury bills	57	57			
Certificates Accrual					
Treasury Securities	6			6	
U.S. Government					
Agency Bonds:					
Federal Farm Credit	10		10		
Federal Home Loan					
Mortgage	24,623	3,960	20,317	346	
Federal Home Loan Banks	14,648	2,055	12,195	123	275
Federal National Mortgage	11,184	1,904	9,117	51	112
Mortgage Association					
Federal Home	572		572		
Register Government					
National	2,126		371	455	1,300
Mortgage Association					
Repurchase agreements	6,284	6,284			
Government National					
Mortgage Association	90				90
Tennessee Valley Authority	184		184		
Domestic individual bonds	155		45	110	
Corporate bonds	10,994	399	3,573	6,446	576
Commercial paper	12,288	12,288			
Mutual funds	3,234				3,234
Other	<u>7,067</u>	<u>1,972</u>			<u>5,095</u>
Total Debt Investments	<u>\$ 137,639</u>	<u>\$ 69,780</u>	<u>\$ 48,850</u>	<u>\$ 7,716</u>	<u>\$ 11,293</u>

Certain of the System's foundations utilize private-sector accounting standards. Those foundations reported investments in the amount of \$130.393 million.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

3. Tennessee Housing Development Agency (THDA)

The Agency is authorized to establish policies for its funds to meet the requirements of bond resolutions and State statute. Funds are invested similarly to State policies.

The Agency's investment policy states that its portfolios will be diversified in order to reduce the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The Agency may invest one hundred percent of its portfolio in U.S. government securities due to the absence of credit risk. A minimum of five percent of the par value of total investments must mature within five years. No more than fifty percent of the par value of the combined portfolios can be invested in maturities greater than 15 years without approval of the Bond Finance Committee.

Credit Risk

The Agency's investments in securities of United States agencies were rated AAA by Standard & Poor's, and Aaa by Moody's Investors Service. The municipal securities were rated AA/Aa2. Funds held in a money market mutual fund were rated AAAm/Aaa. The Agency's investments in repurchase agreements were collateralized by securities of United States agencies which were rated AAA by Standard & Poor's, and Aaa by Moody's Investors Service.

Concentration of Credit Risk

More than five percent of the Agency's investments are invested in the following single issuers (expressed in thousands):

<u>Issuer</u>	<u>June 30, 2005 Fair Value</u>	<u>% of Portfolio</u>
Federal Home Loan Bank	\$ 169,384	22.41
Federal Home Loan Mortgage Corporation	\$ 68,909	9.12
Federal National Mortgage Association	\$ 56,697	7.50
Repurchase Agreements – U.S. Agency	\$ 91,000	12.04

Interest Rate Risk

As of June 30, 2005, the Agency had the following maturities (expressed in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration (Years)</u>
U.S. Agency Coupon	\$ 232,416	4.944
U.S. Agency Discount	78,542	0.389
U.S. Treasury Coupon	112,161	7.820
U.S. Treasury Discount	236,025	0.035
Municipal Securities	413	3.274
Variable Rate Securities	3,464	0.019
Repurchase Agreements	91,000	0.000
Municipal Discount Bonds	500	0.000
Pass-through Securities	1,278	4.397
Total	<u>\$ 755,799</u>	

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

**B. Accounts and notes receivable**

Receivables at June 30, 2005, for the State's individual major funds and non-major and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following (expressed in thousands):

<b>Primary Government</b>							
	<u>Accounts</u>	<u>Taxes</u>	<u>Government</u>	<u>Other</u>	<u>Total Receivables</u>	<u>Allowance for Uncollectibles</u>	<u>Net Total Receivables</u>
Governmental Activities:							
General	\$ 548,362	\$ 629,405	\$ 568,907	\$ 11,990	\$ 1,758,664	\$ (151,572)	\$ 1,607,092
Education	20	429,225	100,436		529,681	(34,542)	495,139
Nonmajor governmental	402	77,872	134,867	1,506	214,647	(428)	214,219
Internal Service	<u>2,880</u>	<u>          </u>	<u>56</u>	<u>2</u>	<u>2,938</u>	<u>(81)</u>	<u>2,857</u>
Total—governmental activities	<u>\$ 551,664</u>	<u>\$ 1,136,502</u>	<u>\$ 804,266</u>	<u>\$ 13,498</u>	<u>\$ 2,505,930</u>	<u>\$ (186,623)</u>	<u>\$ 2,319,307</u>
Amounts not expected to be collected within one year							
		<u>\$ 22,858</u>					<u>\$ 22,858</u>
Business-type Activities:							
Employment Security	\$ 44,196	\$ 98,204	\$ 2,105	\$ 4,172	\$ 148,677	\$ (32,350)	\$ 116,327
Sewer Treatment Loan				32	32		32
Nonmajor enterprise	<u>1,477</u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>1,477</u>	<u>(122)</u>	<u>1,355</u>
Total—business-type activities	<u>\$ 45,673</u>	<u>\$ 98,204</u>	<u>\$ 2,105</u>	<u>\$ 4,204</u>	<u>\$ 150,186</u>	<u>\$ (32,472)</u>	<u>\$ 117,714</u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

**C. Capital assets**

Capital asset activity for the year ended June 30, 2005, was as follows (expressed in thousands):

**Primary Government**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 955,713	\$ 127,756	\$ (378)	\$ 1,083,091
Infrastructure	16,007,143	476,263	(78,617)	16,404,789
Construction in progress	<u>990,694</u>	<u>655,982</u>	<u>(496,948)</u>	<u>1,149,728</u>
Total capital assets, not being depreciated	<u>17,953,550</u>	<u>1,260,001</u>	<u>(575,943)</u>	<u>18,637,608</u>
Capital assets, being depreciated:				
Structures and improvements	1,700,137	27,591	(7,125)	1,720,603
Machinery and equipment	<u>502,220</u>	<u>84,685</u>	<u>(44,227)</u>	<u>542,678</u>
Total capital assets being depreciated	2,202,357	112,276	(51,352)	2,263,281
Less accumulated depreciation for:				
Structures and improvements	(634,922)	(42,118)	3,801	(673,239)
Machinery and equipment	<u>(345,200)</u>	<u>(42,496)</u>	<u>35,699</u>	<u>(351,997)</u>
Total accumulated depreciation	<u>(980,122)</u>	<u>(84,614)</u>	<u>39,500</u>	<u>(1,025,236)</u>
Total capital assets, being depreciated, net	<u>1,222,235</u>	<u>27,662</u>	<u>(11,852)</u>	<u>1,238,045</u>
Governmental activities capital assets, net	<u>\$ 19,175,785</u>	<u>\$ 1,287,663</u>	<u>\$ (587,795)</u>	<u>\$ 19,875,653</u>

Depreciation expense was charged to functions/programs of the primary government as follows (expressed in thousands):

<b>Governmental activities:</b>	
General Government	\$ 1,471
Education	1,336
Health and Social Services	6,403
Law, Justice and Public Safety	18,378
Recreation and Resource Development	10,604
Regulation of Business and Professions	600
Transportation	12,850
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>32,972</u>
Total depreciation expense – governmental activities	<u>\$ 84,614</u>

Highway Construction Commitments — At June 30, 2005, the Department of Transportation had contractual commitments of approximately \$719.2 million for construction of various highway projects. Funding of these future expenditures is expected to be provided from federal grants (\$655.9 million) and general obligation bond proceeds (\$63.3 million).



**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

**Discretely Presented Component Units**

Capital asset activity for the year ended June 30, 2005, for the discretely presented component units are as follows (expressed in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 129,439	\$ 10,924	\$ (636)	\$ 139,727
Construction in progress	<u>175,970</u>	<u>85,132</u>	<u>(43,999)</u>	<u>217,103</u>
Total capital assets, not being depreciated	<u>305,409</u>	<u>96,056</u>	<u>(44,635)</u>	<u>356,830</u>
Capital assets, being depreciated:				
Infrastructure	205,080	10,800	(68)	215,812
Structures and improvements	2,532,955	59,040	(5,465)	2,586,530
Machinery and equipment	<u>702,517</u>	<u>75,975</u>	<u>(45,902)</u>	<u>732,590</u>
Total capital assets being depreciated	3,440,552	145,815	(51,435)	3,534,932
Less accumulated depreciation for:				
Infrastructure	(104,116)	(8,634)	1	(112,749)
Structures and improvements	(1,052,832)	(68,113)	4,646	(1,116,299)
Machinery and equipment	<u>(428,232)</u>	<u>(60,899)</u>	<u>40,842</u>	<u>(448,289)</u>
Total accumulated depreciation	<u>(1,585,180)</u>	<u>(137,646)</u>	<u>45,489</u>	<u>(1,677,337)</u>
Total capital assets, being depreciated, net	<u>1,855,372</u>	<u>8,169</u>	<u>(5,946)</u>	<u>1,857,595</u>
Total capital assets, net	<u>\$ 2,160,781</u>	<u>\$ 104,225</u>	<u>\$ (50,581)</u>	<u>\$ 2,214,425</u>

The University of Tennessee Foundations, and certain Tennessee Board of Regents Foundations utilize FASB standards; therefore, only the June 30, 2005, balances are available as follows (expressed in thousands):

	<u>Ending Balance</u>
Capital assets, not being depreciated:	
Land	\$ 14,610
Total capital assets, not being depreciated	<u>14,610</u>
Capital assets, being depreciated:	
Infrastructure	346
Structures and improvements	140,420
Machinery and equipment	<u>4,383</u>
Total capital assets being depreciated	145,149
Less: Total accumulated depreciation	<u>(11,092)</u>
Total capital assets, being depreciated, net	<u>134,057</u>
Total capital assets, net	<u>\$ 148,667</u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

**D. Interfund balances**

1. Interfund balances at June 30, 2005, consisted of the following (expressed in thousands):

		<b>D U E      F R O M</b>					
	<u>General Fund</u>	<u>Education</u>	<u>Employment Security</u>	<u>Nonmajor Governmental</u>	<u>Nonmajor Enterprise Funds</u>	<u>Internal Service Funds</u>	<u>Total</u>
General Fund		\$ 66,802	\$ 7,955	\$ 10		\$ 607	\$ 75,374
<b>D</b> Education	\$ 6						6
<b>U</b> Employment							
<b>E</b> Security	279						279
Nonmajor							
<b>T</b> Governmental	2,185		3				2,188
<b>O</b> Internal Service							
Funds	2,902					1	2,903
Fiduciary Funds	<u>12,168</u>	<u>461</u>	<u>          </u>	<u>1,857</u>	<u>\$ 6</u>	<u>428</u>	<u>14,920</u>
Total	<u>\$ 17,540</u>	<u>\$ 67,263</u>	<u>\$ 7,958</u>	<u>\$ 1,867</u>	<u>\$ 6</u>	<u>\$ 1,036</u>	<u>\$ 95,670</u>

Of the \$66.802 million due to the General Fund from the Education Fund, \$66.707 million resulted from a time lag between the dates that payments to local education agencies occur and taxes are received in the Education Fund. The \$7.955 million due to the General Fund from Employment Security resulted from a time lag between the dates the funds are drawn and received from the Federal government. The amounts due to Fiduciary Funds resulted from a time lag in payment of payroll tax liabilities.

2. COMPONENT UNITS PAYABLES

Component Units accounts payable to the Primary Government at June 30, 2005, consisted of the following (expressed in thousands):

		<b>P A Y A B L E      F R O M</b>				
		<b>COMPONENT UNITS</b>				
	<u>Tennessee Housing Development Agency</u>	<u>Tennessee Education Lottery</u>	<u>Tennessee Board of Regents</u>	<u>University of Tennessee</u>	<u>Nonmajor Component Units</u>	<u>Total</u>
<b>P</b> PRIMARY GOVERNMENT:						
<b>A</b> General Fund		\$ 3	\$ 149	\$ 47	\$ 3,311	\$ 3,510
<b>Y</b> Education Fund		65,960	1,218	410		67,588
<b>A</b> Employment Security					7	7
<b>B</b> Nonmajor Governmental Funds			222	654		876
<b>L</b> Nonmajor Enterprise Funds			1		9	10
<b>E</b> Internal Service Funds			387	29	27	443
Fiduciary Funds	<u>\$ 76</u>	<u>          </u>	<u>2,715</u>	<u>2,698</u>	<u>87</u>	<u>5,576</u>
<b>T</b>						
<b>O</b> Total	<u>\$ 76</u>	<u>\$ 65,963</u>	<u>\$ 4,692</u>	<u>\$ 3,838</u>	<u>\$ 3,441</u>	<u>\$ 78,010</u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

**3. COMPONENT UNITS RECEIVABLES**

Component Units accounts receivable from the Primary Government at June 30, 2005, consisted of the following (expressed in thousands):

		<b>R E C E I V A B L E   F R O M</b>			
		<b>PRIMARY GOVERNMENT</b>			
		<u>General Fund</u>	<u>Education Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>R</b>					
<b>E</b>					
<b>C</b>	COMPONENT UNITS:				
<b>E</b>					
<b>I</b>	Tennessee Housing				
<b>V</b>	Development Agency	\$ 1			\$ 1
<b>A</b>	Tennessee Board of Regents		\$ 115	\$ 1,219	1,334
<b>B</b>	University of Tennessee		252	1,004	1,256
<b>L</b>	Nonmajor Component				
<b>E</b>	Units	<u>8,127</u>	<u>      </u>	<u>      </u>	<u>8,127</u>
<b>T</b>	Total	<u>\$ 8,128</u>	<u>\$ 367</u>	<u>\$ 2,223</u>	<u>\$ 10,718</u>
<b>O</b>					

**E. Transfers**

Transfers between the various primary government funds for fiscal year ended June 30, 2005 are as follows (expressed in thousands):

		<b>Transfers In</b>					
			Nonmajor		Nonmajor	Internal	
			Governmental	Sewer	Enterprise	Service	
<u>Transfers Out</u>	<u>General</u>	<u>Education</u>	<u>Funds</u>	<u>Treatment</u>	<u>Funds</u>	<u>Funds</u>	<u>Total</u>
General		\$ 525,537	\$ 96,308	\$ 3,529	\$ 17,533	\$ 32,141	\$ 675,048
Education			3,484				3,484
Nonmajor							
Governmental Funds	<u>\$ 109,651</u>	<u>      </u>	<u>77,906</u>	<u>      </u>	<u>      </u>	<u>47</u>	<u>187,604</u>
Totals	<u>\$ 109,651</u>	<u>\$ 525,537</u>	<u>\$ 177,698</u>	<u>\$ 3,529</u>	<u>\$ 17,533</u>	<u>\$ 32,188</u>	<u>\$ 866,136</u>

Transfers are generally used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due and (3) use unrestricted resources from the general fund to finance various programs accounted for in other funds in accordance with statute or budgetary authorizations.

In the fiscal year ended June 30, 2005, the general fund transferred \$675.0 million to other funds in accordance with statute or budgetary authorizations for the following purposes: \$515.5 million to subsidize the activities of the education fund, \$77.8 million for capital outlay expenditures, \$69.4 million to provide appropriations to finance various programs in other funds, \$4.0 million to provide for debt service payments that were due, and \$8.3 million for payments for interfund services used.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

**F. Lease obligations**

Operating Lease Obligations — The State has entered into various operating leases for land, buildings and equipment. Most leases contain termination clauses providing for cancellation after 30, 60 or 90 days' written notice to lessors. In addition, most leases contain appropriation clauses indicating that continuation of the lease is subject to funding by the legislature. It is expected that in the normal course of business most of these leases will be replaced by similar leases. The State has also entered into various operating leases, which have non-cancelable lease terms. Below is a schedule of future minimum lease payments under these leases (expressed in thousands).

For the Year(s) <u>Ended June 30</u>	Noncancelable <u>Operating Leases</u>
2006	\$ 12,512
2007	9,520
2008	7,121
2009	6,694
2010	5,649
2011-2015	<u>11,227</u>
Total Minimum Payments Required	<u>\$ 52,723</u>

Expenditures for rent under leases for the years ended June 30, 2005 and 2004, amounted to \$40.1 million and \$35.8 million, respectively.

Capital Lease Obligations – The State leases two buildings for vocational training centers, one in Carter County and the other in Dyersburg. The leases provide an option to purchase the buildings within the lease periods. These capital lease obligations are payable from resources of the General Fund. The effective interest rates are 5.1% and 4.78%. In addition, the Department of General Services leased imaging systems and printers with an option to purchase within the five-year lease periods. The effective interest rates of the equipment leases are 6.4% and 5%. The State also leases an office building for the Tennessee Bureau of Investigation in Jackson, Tennessee. The lease qualifies as a capital lease and the lease obligation is payable from resources of the Facilities Revolving Fund. The effective interest rate is 5%. These capital lease obligations are reported in the governmental activities column of the Statement of Net Assets. The following is an analysis of the leased property under capital leases (expressed in thousands).

		<u>Governmental Activities</u>
Assets:		
Land		\$ 96
Buildings	1,623	
Less: Accumulated		
Depreciation	<u>178</u>	1,445
Equipment	410	
Less: Accumulated		
Depreciation	<u>95</u>	<u>315</u>
		<u>\$ 1,856</u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

At June 30, 2005, minimum annual lease payments are as follows (expressed in thousands):

<u>For the Year(s)</u> <u>Ended June 30</u>	<u>Governmental Activities Lease</u> <u>Obligation Payable</u>
2006	\$ 332
2007	332
2008	332
2009	239
2010	85
2011-2015	<u>382</u>
Total	1,702
<u>Less</u> - Interest	204
Less Executory Costs	<u>269</u>
Present value of net minimum lease payments	<u>\$ 1,229</u>

**G. Lease receivables**

Operating Lease Receivables — The State, as the lessor, entered into an operating lease with Tennessee Golf, LLC for four golf courses built by the State to be operated by the lessee. The 21-year lease agreement, dated January 20, 1995, that required lease payments begin in January 2001 was amended on February 11, 2002, to extend the lease period to 30 years. In accordance with GASB Statement 13, this lease qualifies as a lease with scheduled rent increases. The golf courses are recorded as a governmental activities capital asset.

The State, as the lessor, entered into an operating lease with The Hassell Charitable Foundation for Ross Creek Golf Course, which was acquired by the State to be operated by the lessee. The 20-year lease agreement is dated September 12, 2003.

The following is a schedule by years of minimum future rentals on noncancelable leases as of June 30, 2005 (expressed in thousands):

<u>Year ending June 30</u>	
2006	\$ 1,538
2007	2,612
2008	2,652
2009	2,696
2010	2,737
2011-2015	14,432
2016-2020	14,831
2021-2025	13,907
2026-2030	12,647
2031	<u>1,265</u>
Total minimum future rentals	<u>\$ 69,317</u>

Capital Lease Receivable — The State, as the lessor, entered into a lease agreement with the Nashville/Davidson County Metropolitan Government (lessee) for the Farmers' Market Facility. The lease term is 20 years with an option to renew the lease for an unlimited period of time. The agreement was signed in June 1995; an initial cash payment was made and the first of 19 payments began in fiscal year 1997. The State is subsidizing a part of the cost of this building.

The State, as lessor, entered into a lease agreement with the Nashville/Davidson County Metropolitan Government (lessee) for the Post-Mortem Facility. The lease term is 20 years beginning July 15, 2001, with an option to renew the lease for an unlimited period of time for a nominal amount. The State is subsidizing a part of the cost of this building.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

Minimum future lease payments to be received as of June 30, 2005 (expressed in thousands):

<u>Year Ended June 30</u>	<u>Total</u>
2006	\$ 560
2007	461
2008	457
2009	458
2010	459
2011-2015	2,296
2016-2020	1,007
2021	<u>201</u>
Total minimum future lease payments	<u>\$ 5,899</u>

Net investment in direct financing leases at June 30:

Minimum lease payments receivable	\$ 5,899
Plus: deferred charges	<u>649</u>
Net investment in direct financing lease	<u>\$ 6,548</u>

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**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

**H. Long term debt**

1. General Obligation Bonds – Bonds Payable at June 30, 2005, are shown below (expressed in thousands):

	<u>Amount</u>
<u>Business-type Activities:</u>	
General obligation bonds, 5.0%, principal and interest of \$719 thousand due in 2006	\$ 685
General obligation refunding bonds, 1996 Series C, 4.6% to 5.0%, principal and interest due in amounts from \$1.177 million in 2006 to \$986 thousand in 2010	4,640
	5,325
Less: Unamortized bond refunding costs	(93)
Total Business-type Activities	<u>\$ 5,232</u>
<u>Governmental Activities:</u>	
General obligation bonds, 2.25% to 6.5%, due in generally decreasing amounts of principal and interest from \$71.059 million in 2006 to \$205 thousand in 2026	\$ 410,903
General obligation refunding bonds, 1996 Series B, 4.6% to 6%, principal and interest due in amounts from \$18.992 million in 2006 to \$3.911 million in 2011	43,985
General obligation refunding bonds, 1999 Series A, 4% to 5%, principal and interest due in amounts from \$35.018 million in 2006 to \$5.398 million in 2015	189,457
General obligation refunding bonds, 2004 Series A, 2.97% to 5.1%, principal and interest due in amounts from \$1.792 million in 2006 to \$1.629 in 2012	9,960
General obligation refunding bonds, 2004 Series B, 4.82% from 2006 to 2010 and variable interest rates from 2011 to 2029, principal and interest due in amounts from \$2.070 million in 2006 to \$3.737 million in 2029	42,950
General obligation refunding bonds, 2004 Series C, 3% to 5.25%, principal and interest due in amounts from \$10.721 million in 2006 to \$11.388 million in 2018	237,247
General obligation refunding bonds, 2005 Series A, 3.5% to 5.25%, principal and interest due in amounts from \$6.485million in 2006 to \$7.628 million in 2020	141,277
	1,075,779
Less: Unamortized bond refunding costs	(30,949)
Total Governmental Activities	<u>\$ 1,044,830</u>

General obligation refunding bonds issued during the year ended June 30, 2005:

July 2004 –	Refunding Series 2004A in the amount of \$11.885 million
	Refunding Series 2004B in the amount of \$42.95 million
September 2004 –	Refunding Series 2004C in the amount of \$215.165 million
March 2005 –	Refunding Series 2005A in the amount of \$128.37 million

In July 2004, the state issued general obligation refunding bonds in the amount of \$11.885 million (Series 2004A) and \$42.95 million (Series 2004B) to provide for the advance refunding of \$49.875 million of general obligation bonds issued in Series 1997B (\$22.67 million), 1998A (\$8.125 million), and 1999C (\$19.08 million). Proceeds from the advance refunding and other funds were deposited in an irrevocable trust account with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the bonds are considered defeased and the liability for those bonds have been removed from the government-wide statement of net assets.



**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

The net carrying amount of the refunded bonds was \$10.81 million (Series 2004A) and \$39.065 million (Series 2004B). The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1.2 million (Series 2004A) and \$4.2 million (Series 2004B). This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through 2012 (2004A) and 2029 (2004B) using the straight-line method. The state completed the refunding to reduce its total debt service payments over the next 24 years by \$6.247 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$2.479 million.

In September 2004, the state issued general obligation refunding bonds in the amount of \$215.165 million (Series 2004C) at a premium of \$23.433 million to provide for the advance refunding of \$220.69 million of general obligation bonds issued in Series 1996A (\$50.94 million), 1997A (\$43.2 million), 1998B (\$20.83 million), 1999B (\$30.6 million), 2000A (\$45 million), and 2002A (\$30.12 million). Proceeds from the advance refunding were deposited in an irrevocable trust account with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the bonds are considered defeased and the liability for those bonds have been removed from the government-wide statement of net assets.

The net carrying amount of the refunded bonds was \$221.729 million. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$16.32 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2018 using the straight-line method. The state completed the refunding to reduce its total debt service payments over the next 13 years by \$17.394 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$9.824 million.

In March 2005, the state issued general obligation refunding bonds in the amount of \$128.37 million (Series 2005A) at a premium of \$13.125 million to provide for the advance refunding of \$132.405 million of general obligation bonds issued in Series 1997A (\$34.565 million), 1998A (\$49.775 million), 1998B (\$10.415 million), 1999B (\$7.65 million), and 2000A (\$30 million). Proceeds from the advance refunding were deposited in an irrevocable trust account with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the bonds are considered defeased and the liability for those bonds have been removed from the government-wide statement of net assets.

The net carrying amount of the refunded bonds was \$132.444 million. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$8.533 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2020 using the straight-line method. The state completed the refunding to reduce its total debt service payments over the next 15 years by \$7.173 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$5.606 million.

2. General Obligation Commercial Paper – Governmental Activities Commercial Paper Payable at June 30, 2005, is shown below (expressed in thousands).

	<u>Commercial Paper</u>
General obligation commercial paper, interest rates ranging from 1.14% to 2.89% for tax exempt and 1.97% to 3.35% for taxable, varying maturities	\$ 168,575

The full faith and credit of the State, together with certain tax revenues, are pledged to secure all general obligation bonds and commercial paper listed above.

In March 2000, the State instituted a general obligation commercial paper program to provide interim or short-term financing of various authorized capital projects. Commercial paper may be issued as federally taxable or tax exempt and constitute bond anticipation notes. The commercial paper is sold at par as interest-bearing obligations in minimum denominations of \$100 thousand and integral multiples of one thousand in excess of such amount, with interest payable at maturity. The commercial paper has varying maturities of not more than 270 days from their respective dates of issuance. Interest rates vary depending on the market. The amount of principal outstanding may not exceed \$250 million.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

The State has entered into a Standby Commercial Paper Purchase Agreement with the Tennessee Consolidated Retirement System under which TCRS is obligated to purchase newly issued commercial paper issued to pay the principal of other commercial paper. The Program expires and the Standby Purchase Agreement terminates on April 1, 2010. At June 30, 2005, \$168.575 million of commercial paper was outstanding (\$160.575 million tax exempt and \$8 million federally taxable). Commercial paper payable under this Program qualifies for reporting as a non-current liability because provisions in the Commercial Paper Resolution permit refinancing the paper on a long-term basis.

3. Debt Service Requirements to Maturity - Debt Service requirements to maturity for all general obligation bonds payable at June 30, 2005, are as follows (expressed in thousands):

<u>For the Year(s)</u> <u>Ended June 30</u>	<u>General Obligation Bonds</u>		<u>Total</u> <u>Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2006	\$ 100,336	\$ 47,697	\$ 148,033
2007	89,371	42,792	132,163
2008	83,546	38,573	122,119
2009	82,791	34,838	117,629
2010	79,987	30,975	110,962
2011-2015	358,527	97,383	455,910
2016-2020	206,589	32,126	238,715
2021-2025	66,452	8,551	75,003
2026-2029	13,505	1,646	15,151
	<u>\$1,081,104</u>	<u>\$ 334,581</u>	<u>\$ 1,415,685</u>

The above principal for bonds does not reflect a \$31.042 million deduction from bonds payable for the deferred amount on refunding.

4. General Obligation Bonds Authorized and Unissued - A summary of general obligation bonds authorized and unissued at June 30, 2005, is shown below (expressed in thousands). It is anticipated that a significant amount of these bonds will not be issued but will be canceled because of sufficient fund balances.

<u>Purpose</u>	<u>Unissued</u> <u>July 1, 2004</u>	<u>Authorized</u>	<u>Canceled</u>	<u>Unissued</u> <u>June 30, 2005</u>
Highway	\$ 800,500	\$ 156,000	\$ 74,000	\$ 882,500
Higher Education	9,278	69,990	3,900	75,368
Environment and Conservation	13,012			13,012
General Government	731,363	203,900	3,205	932,058
Local Development Authority	<u>16,800</u>		<u>2,800</u>	<u>14,000</u>
Totals	<u>\$ 1,570,953</u>	<u>\$ 429,890</u>	<u>\$ 83,905</u>	<u>\$ 1,916,938</u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

5. Changes in Long-Term Obligations - A summary of changes in long-term obligations for the year ended June 30, 2005, follows (expressed in thousands).

**Changes In Long-Term Obligations**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds and Commercial Paper Payable:					
General Obligation Debt	\$ 1,226,107	\$ 527,429	\$ (509,182)	\$ 1,244,354	\$ 95,295
Less Deferred Amount on Refundings	<u>(2,306)</u>	<u>(30,273)</u>	<u>1,630</u>	<u>(30,949)</u>	
Total Bonds and Commercial Paper Payable	1,223,801	497,156	(507,552)	1,213,405	95,295
Capital Leases	1,008	419	(198)	1,229	245
Compensated Absences	176,805	146,496	(127,937)	195,364	88,862
Claims and Judgments	<u>362,738</u>	<u>51,858</u>	<u>(116,175)</u>	<u>298,421</u>	<u>30,086</u>
Governmental Activities Long-Term Obligations	<u>\$ 1,764,352</u>	<u>\$ 695,929</u>	<u>\$ (751,862)</u>	<u>\$ 1,708,419</u>	<u>\$ 214,488</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Bonds Payable	\$ 8,184		\$ (2,859)	\$ 5,325	\$ 1,645
Less Deferred Amount on Refundings	<u>(113)</u>		<u>20</u>	<u>(93)</u>	
Total Bonds Payable	8,071		(2,839)	5,232	1,645
Compensated Absences	<u>69</u>	<u>\$ 76</u>	<u>(61)</u>	<u>84</u>	<u>39</u>
Business-Type Activities Long-Term Obligations	<u>\$ 8,140</u>	<u>\$ 76</u>	<u>\$ (2,900)</u>	<u>\$ 5,316</u>	<u>\$ 1,684</u>

Governmental activities include all governmental funds and internal service funds. Typically, agencies accounted for in the General Fund and Special Revenue Funds liquidate compensated absences liabilities. Claims and judgments are obligations of Underground Storage Tanks and Highway Funds (special revenue funds), Risk Management (internal service fund) and the General Fund.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

**I. Payables**

Payables as of June 30, 2005, were as follows (expressed in thousands):

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Accrued Interest</u>	<u>Other</u>	<u>Total Payables</u>
Governmental Activities:					
General	\$ 852,791	\$ 68,572		\$ 44,196	\$ 965,559
Education	118,344	3,429		7,681	129,454
Nonmajor governmental	120,738	9,224	\$ 13,411	229	143,602
Internal Service	<u>66,544</u>	<u>2,122</u>			<u>68,666</u>
Total— governmental activities	<u>\$ 1,158,417</u>	<u>\$ 83,347</u>	<u>\$ 13,411</u>	<u>\$ 52,106</u>	<u>\$ 1,307,281</u>
Business-Type Activities:					
Employment Security	\$ 76			\$ 10,906	\$ 10,982
Sewer Treatment Loan	339				339
Nonmajor enterprise	<u>35,193</u>	<u>\$ 31</u>	<u>\$ 84</u>	<u>11</u>	<u>35,319</u>
Total—business-type activities	<u>\$ 35,608</u>	<u>\$ 31</u>	<u>\$ 84</u>	<u>\$ 10,917</u>	<u>\$ 46,640</u>

**J. Component units – condensed financial statements**

Below are the condensed financial statements of the component units for the State of Tennessee as of June 30, 2005 (expressed in thousands):

Condensed Statement of Net Assets  
Component Units

	<u>Housing Development Agency</u>	<u>Tennessee Education Lottery</u>	<u>Board of Regents</u>	<u>University of Tennessee</u>	<u>Nonmajor Component Units</u>	<u>Total Component Units</u>
Assets						
Cash, Investments, and Other Assets	\$ 2,046,483	\$ 93,381	\$ 893,657	\$ 1,345,477	\$ 182,551	\$ 4,561,549
Due from Primary Government	1		1,334	1,256	8,127	10,718
Due from Other Component Units					524,075	524,075
Restricted Assets	189,713	288			25,618	215,619
Capital Assets, Net	<u>16</u>	<u>2,981</u>	<u>1,260,431</u>	<u>1,089,753</u>	<u>9,911</u>	<u>2,363,092</u>
Total Assets	<u>2,236,213</u>	<u>96,650</u>	<u>2,155,422</u>	<u>2,436,486</u>	<u>750,282</u>	<u>7,675,053</u>
Liabilities						
Accounts Payable and Other						
Current Liabilities	39,338	22,101	131,779	176,752	28,415	398,385
Due to Primary Government	76	65,963	4,692	3,838	3,441	78,010
Due to Other Component Units			274,992	249,083		524,075
Long-Term Liabilities	<u>1,764,275</u>	<u>1,425</u>	<u>80,536</u>	<u>293,463</u>	<u>700,603</u>	<u>2,840,302</u>
Total Liabilities	<u>1,803,689</u>	<u>89,489</u>	<u>491,999</u>	<u>723,136</u>	<u>732,459</u>	<u>3,840,772</u>
Net Assets						
Invested in Capital Assets,						
Net of Related Debt	16	2,981	985,094	713,142	5,685	1,706,918
Restricted	425,198	7,161	342,275	753,092	1,324	1,529,050
Unrestricted	<u>7,310</u>	<u>(2,981)</u>	<u>336,054</u>	<u>247,116</u>	<u>10,814</u>	<u>598,313</u>
Total Net Assets	<u>\$ 432,524</u>	<u>\$ 7,161</u>	<u>\$ 1,663,423</u>	<u>\$ 1,713,350</u>	<u>\$ 17,823</u>	<u>\$ 3,834,281</u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

Condensed Statement of Activities  
Component Units

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Component Units:				
Housing Development Agency	\$ 257,661	\$ 101,473	\$ 190,510	
Tennessee Education Lottery	783,199	787,309	23	
Board of Regents	1,719,612	577,277	457,663	\$ 38,933
University of Tennessee	1,444,253	408,242	581,269	27,693
Nonmajor Component Units	<u>179,852</u>	<u>65,247</u>	<u>65,918</u>	<u>558</u>
Total	<u>\$ 4,384,577</u>	<u>\$ 1,939,548</u>	<u>\$ 1,295,383</u>	<u>\$ 67,184</u>

General Revenues:

Payments from Primary Government  
Unrestricted Grants and Contributions  
Unrestricted Investment Earnings  
Miscellaneous  
Total General Revenues  
Contributions to Permanent Funds  
Change in Net Assets  
Net Assets – July 1  
Net Assets – June 30

Significant transactions between the major component units–Tennessee Board of Regents (TBR), University of Tennessee (UT) and the Tennessee Education Lottery Corporation (TELC)–and the primary government consist of the following:

State appropriations from the Education Fund in the amount of \$657.4 million were made to the TBR and \$442.9 million to the UT.

Capital project expenditures in the amount of \$49.3 million were made for the TBR and \$18.1 million to the UT in the form of expenditures in the capital projects fund for projects at these school systems.

The TBR paid the primary government \$11.4 million to reimburse the state for projects that were not a part of the capital appropriations.

The TELC generated net lottery proceeds of \$227.4 million for the State's Lottery for Education Account.

The most significant transaction among component units is that in which the Tennessee State School Bond Authority, a nonmajor component unit, makes loans to the University of Tennessee and the Tennessee Board of Regents to finance certain capital projects. At June 30, 2005, the Authority's loan receivable (expressed in thousands) consisted of:

	<u>Current</u>	<u>Noncurrent</u>
Tennessee Board of Regents	\$ 9,422	\$ 263,468
University of Tennessee	<u>12,628</u>	<u>234,615</u>
Total	<u>\$ 22,050</u>	<u>\$ 498,083</u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

<u>Net (Expense) Revenue and Changes in Net Assets</u>					
<u>Housing Development Agency</u>	<u>Tennessee Education Lottery</u>	<u>Board of Regents</u>	<u>University of Tennessee</u>	<u>Nonmajor Component Units</u>	<u>Total</u>
\$ 34,322					\$ 34,322
	\$ 4,133				4,133
		\$ (645,739)			(645,739)
			\$ (427,049)		(427,049)
				\$ (48,129)	(48,129)
<u>34,322</u>	<u>4,133</u>	<u>(645,739)</u>	<u>(427,049)</u>	<u>(48,129)</u>	<u>(1,082,462)</u>
		660,004	442,240	47,320	1,149,564
		23,674	2,032	24	25,730
127	714	12,100	8,083	167	21,191
		<u>3,809</u>			<u>3,809</u>
<u>127</u>	<u>714</u>	<u>699,587</u>	<u>452,355</u>	<u>47,511</u>	<u>1,200,294</u>
		<u>23,491</u>	<u>19,561</u>		<u>43,052</u>
34,449	4,847	77,339	44,867	(618 )	160,884
<u>398,075</u>	<u>2,314</u>	<u>1,586,084</u>	<u>1,668,483</u>	<u>18,441</u>	<u>3,673,397</u>
<u>\$ 432,524</u>	<u>\$ 7,161</u>	<u>\$ 1,663,423</u>	<u>\$ 1,713,350</u>	<u>\$ 17,823</u>	<u>\$ 3,834,281</u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

**K. Major component units – long term debt**

Tennessee Housing Development Agency (THDA)

Bonds Payable and Notes Payable at June 30, 2005, are shown below (expressed in thousands):

Mortgage finance program revenue bonds, various Series, 1.1% to 7.93%, due in amounts of principal and interest ranging from \$146.188 million in 2006 to \$16.284 million in 2036	\$ 1,443,733
Less: Unamortized bond refunding costs	<u>(10,303)</u>
Net Bonds Payable	<u>\$ 1,433,430</u>
Homeownership Program Convertible Drawdown Notes, interest rates ranging from 1.01% to 2.99% due December 8, 2005 and August 9, 2007	<u>\$ 311,900</u>

The revenue bonds and notes listed above are not obligations of the State. They are secured by pledge from the facilities to which they relate and by certain other revenues, fees and assets of the THDA.

Bond sales during the year ended June 30, 2005, included the following issues:

July 2004 – Program bonds of \$100 million  
January 2005 – Program bonds of \$100 million

On July 15, 2004, the agency issued \$100 million in Homeownership Program Bonds, Issue 2004-2. The agency used \$7.835 million to refund bonds and \$43.92 million to redeem notes.

On January 13, 2005, the agency issued \$100 million in Homeownership Program Bonds, Issue 2004-3. The agency used \$32.91 million to redeem notes and \$17 million to refund bonds in the Y1Z1 and Y2Z2 series.

Current Refundings

During the year ended June 30, 2005, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of \$12.32 million and in the Homeownership Program in the amount of \$86.406 million. The respective carrying values of the bonds were \$12.255 million and \$85.858 million. This resulted in an expense to the Mortgage Finance Program of \$65 thousand and the Homeownership Program of \$548 thousand.

On July 1, 2004, the agency used \$39.185 million of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of \$27.955 million early redemption and \$11.23 million current maturities). The carrying amount of these bonds was \$38.995 million. The refunding resulted in a difference of \$190 thousand between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

On July 15, 2004, the agency issued \$100 million in Homeownership Program Bonds, Issue 2004-2. On August 1, 2004, the agency used \$7.835 million of these bonds to refund bonds previously issued in the Homeownership Program. The carrying amount of these bonds was \$7.76 million. The refunding resulted in a difference of \$75 thousand between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2020. On August 12, 2004, the agency used \$43.92 million of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which were used July 1, 2003 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding reduced the agency's debt service by \$16.961 million over the next 26 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$12.083 million.

On October 1, 2004, the agency used \$34.145 million of Single Family Mortgage Program Notes, 2004CN-1, drawn down on August 31, 2004, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The carrying amount of these bonds was \$33.943 million. The refunding resulted in a difference of \$202 thousand between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On January 3, 2005, the second drawdown was made on the Series 2004CN-1 Notes in the amount of \$42.160 million. These proceeds were used to refund bonds previously issued in the Mortgage Finance and Homeownership programs. The carrying amount of these bonds was \$41.997 million. The refunding resulted in a difference of \$163 thousand between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On January 13, 2005, the agency used \$100 million in Homeownership Program Bonds, Issue 2004-3. The agency used \$32.91 million of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which were used July 1, 2003, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. On March 1, 2005, all outstanding Y1Z1 and Y2Z2 Series bonds in the amount of \$18.175 million were called. Of this amount, \$700 thousand were called at par and the Optional Redemption provision was used to call the remaining \$17.475 million bonds at 101 percent. Mortgage prepayments and excess reserves were used to call \$1.175 million of the bonds. The remaining \$17 million was refunded by 2004-3. The carrying amount of these bonds was \$16.914 million. A call premium of \$165 thousand was paid on the redemption of these bonds. The refunding resulted in a difference of \$251 thousand between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2016. The refunding increased the agency's debt service by \$587 thousand over the next 26 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$7.7 million.



**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

Debt Service requirements to maturity for revenue bonds payable at June 30, 2005, are as follows (expressed in thousands):

<u>For the Year(s)</u> <u>Ended June 30</u>	<u>Revenue Bonds</u>		<u>Total</u> <u>Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2006	\$ 74,139	\$ 72,049	\$ 146,188
2007	50,330	70,616	120,946
2008	51,279	69,311	120,590
2009	46,369	63,687	110,056
2010	44,950	60,538	105,488
2011-2015	190,715	272,687	463,402
2016-2020	140,565	232,088	372,653
2021-2025	212,771	190,957	403,728
2026-2030	213,026	135,772	348,798
2031-2035	391,855	72,687	464,542
2036	<u>15,895</u>	<u>389</u>	<u>16,284</u>
	<u>\$ 1,431,894</u>	<u>\$ 1,240,781</u>	<u>\$ 2,672,675</u>

The above principal for revenue bonds is less than that presented on the accompanying financial statements by \$1.536 million. Of this amount, \$11.839 million represents accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds. This accretion has been reported above as interest in the years on which the bonds mature (2006-2010). In addition, \$10.303 million, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

Notes Program

The Single Family Mortgage Notes Trust Indenture, dated December 1, 1997 (the "Trust Indenture"), provides for the issuance of agency drawdown notes with a maximum aggregate principal amount of \$65 million. On April 1, 1999 the Trust Indenture was supplemented providing for the maximum aggregate principal amount of \$200 million. On December 1, 2002, the Trust Indenture was supplemented to provide a maximum aggregate principal amount of \$450 million. The notes bear interest, payable on the second Thursday of each succeeding month with respect to the principal amount drawn down by the agency. The interest rate is equal to ninety percent (90%) of the bond equivalent yield as determined on the related rate date. On December 1, 2002, the interest rate was changed to ninety-nine percent (99%) of the bond equivalent yield as determined on the related rate date.

The following table is a summary of the note activity for the year ended June 30, 2005 (expressed in thousands).

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
\$273,240	\$115,490	\$76,830	\$311,900

The \$311.9 million of notes outstanding at year end consist of Series 2002CN-1, which mature on December 8, 2005 with interest rates ranging from 1.01% to 2.753%, and Series 2004CN-1, which mature on August 9, 2007 with interest rates ranging from 1.466% to 2.99%.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

**L. Nonmajor component units – long term debt**

Tennessee Local Development Authority (TLDA)

Bonds Payable and Notes Payable at June 30, 2005, are shown below (expressed in thousands):

Revenue bonds, 1.95% to 5.125%, due in generally decreasing amounts of principal and interest from \$4.274 million in 2006 to \$16 thousand in 2022	\$ 31,541
Less: Unamortized bond refunding costs	<u>(1,575)</u>
Net Bonds Payable	<u>\$ 29,966</u>
Revenue bond anticipation notes, \$45.97 million at 4% due May 25, 2006	<u>\$ 45,970</u>

The revenue bonds and revenue bond anticipation notes listed above are not obligations of the State. They are secured by pledge of resources from the facilities to which they relate and by certain other revenues, fees and assets of the TLDA.

Debt Service requirements to maturity for TLDA's revenue bonds payable at June 30, 2005, are as follows (expressed in thousands):

<u>For the Year(s)</u> <u>Ended June 30</u>	<u>Revenue Bonds</u>		<u>Total</u> <u>Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2006	\$ 2,806	\$ 1,468	\$ 4,274
2007	2,457	1,357	3,814
2008	2,552	1,260	3,812
2009	2,667	1,145	3,812
2010	2,782	1,031	3,813
2011-2015	11,987	3,359	15,346
2016-2020	6,075	723	6,798
2021-2022	215	17	232
	<u>\$ 31,541</u>	<u>\$ 10,360</u>	<u>\$ 41,901</u>

The above principal for revenue bonds does not reflect a \$1.575 million deduction from bonds payable for the deferred amount on refunding.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

Tennessee State School Bond Authority (TSSBA)

Bonds and Commercial Paper Payable at June 30, 2005, are shown below (expressed in thousands):

Revenue bonds, various Series, 2% to 7.15%, due in decreasing amounts of principal and interest from \$43.891 million in 2006 to \$2.996 million in 2034	\$ 539,380
Less: Unamortized bond refunding costs	<u>(19,293)</u>
Net Bonds Payable	<u>\$ 520,087</u>
 Commercial paper, interest rates ranging from 2.35% to 3.07%, varying maturities	 <u>\$ 74,242</u>

The revenue bonds and commercial paper listed above are not obligations of the State. They are secured by pledge of resources from the facilities to which they relate and by certain other revenues, fees and assets of the TSSBA.

On November 24, 2004, the Authority issued \$12.6 million of Qualified Zone Academy Bonds (QZABs) to finance improvement loans for qualifying primary and secondary (K-12) schools in the state. The QZABs are part of a federal government program administered by the Tennessee Department of Education in which a federal tax credit is given to investors in lieu of interest on the bonds. On each November 24, the 2004 QZAB borrowers make an annual principal payment into a bond fund held by the State Treasurer to pay the bonds at maturity on November 24, 2020.

On June 8, 2005, the Authority issued refunding bonds, 2005 Series A and B. The 2005 Series A tax-exempt bond proceeds in the amount of \$100.54 million were used to advance refund \$22.06 million of the 1998A bonds, \$6.245 million of the 1998C bonds, \$53.135 million of the 2000A bonds, and \$19.01 million of the 2002A bonds. The 2005 Series A refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$6.717 million. This amount is reported as a deduction from bonds payable and is being charged to operations through the year 2030. The 2005 Series A refunding resulted in a reduction of total debt service payments of \$6.793 million over the next 25 years and an economic gain (difference between the present values of the old and new debt service payments) of \$4.905 million. The 2005B taxable bond proceeds in the amount of \$30.96 million were used to advance refund \$12.54 million of the 1998B bonds and \$13.965 million of the 2000B bonds. The 2005 Series B refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$3.915 million. This amount is reported as a deduction from bonds payable and is being charged to operations through the year 2028. The 2005 Series B refunding resulted in a reduction of total debt service payments of \$1.921 million over the next 23 years and an economic gain (difference between the present values of the old and new debt service payments) of \$1.724 million. The funds provided by the advance refundings were placed in an irrevocable trust account to provide for all future debt service payments of the refunded bonds. As a result, the bonds are considered defeased and the liability for those bonds have been removed from the government-wide statement of net assets.

Prior-Year Defeasance of Debt. In prior years, the authority defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the authority's financial statements. On June 30, 2005, \$97.745 million of bonds outstanding are considered defeased.

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**JUNE 30, 2005**

Debt Service requirements to maturity for TSSBA's revenue bonds payable at June 30, 2005, are as follows (expressed in thousands):

For the Year(s) Ended June 30	<u>Revenue Bonds</u>		Total
	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2006	\$ 21,070	\$ 22,821	\$ 43,891
2007	21,379	22,496	43,875
2008	22,176	21,740	43,916
2009	23,095	20,986	44,081
2010	24,116	20,139	44,255
2011-2015	118,804	76,082	194,886
2016-2020	115,346	53,135	168,481
2021-2025	100,951	31,062	132,013
2026-2030	64,023	12,763	76,786
2031-2034	<u>20,978</u>	<u>2,193</u>	<u>23,171</u>
	<u>\$ 531,938</u>	<u>\$ 283,417</u>	<u>\$ 815,355</u>

The above principal for revenue bonds is more than that presented on the accompanying financial statements by \$11.851 million. Of this amount, \$7.442 million represents accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds. This accretion has been reported above as interest in the years on which the bonds mature (2006-2010). In addition, \$19.293 million, which is a deduction from bonds payable for the deferred amount on refunding, is not reflected in above presentation.

Commercial Paper Program. The Tennessee State School Bond Authority issues short-term debt to finance certain capital projects for the State of Tennessee's higher education institutions. The maximum amount of principal may not exceed \$150 million. At June 30, 2005, \$72.922 million of tax-exempt and \$1.32 million of taxable commercial paper was outstanding.

The commercial paper is a special obligation of the Authority. The commercial paper dealer is J. P. Morgan. Commercial paper principal and interest may be paid from: (i) the proceeds of draws on the Liquidity Facility, (ii) Available Revenues, (iii) the moneys and securities (if any) on deposit in the commercial paper and reimbursement account and in the Debt Service Fund, (iv) the moneys and securities (if any) on deposit in the Project Construction Account for such projects, and (v) the proceeds of bonds, notes or other evidences of indebtedness to the extent set aside to make such payments. The maturity of the paper may not exceed 270 days and the maximum interest rate may not exceed 12%. Interest rates vary ranging from 1% to 3.07% during the fiscal year. Upon maturity, the paper is remarketed by the commercial paper dealer, redeemed, or extinguished with long-term debt. The Commercial Paper bears interest at a variable rate that is paid upon maturity. The Commercial Paper liquidity provider, under an Advance Agreement, is *Westdeutsche Landesbank Girozentrale*, New York branch with a termination date of December 15, 2015, subject to extension and earlier termination. The total available commitment is \$152.25 million. The obligation of *Westdeutsche Landesbank Girozentrale* is to purchase unremarketed Commercial Paper. Commercial paper payable under this Program qualifies for reporting as a non-current liability because provisions in the Commercial Paper Resolution permit refinancing the paper on a long-term basis.

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**M. Component units – changes in long term obligations**

A summary of changes in long term obligations for the year ended June 30, 2005, follows (expressed in thousands).

**Changes In Long Term Obligations**

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Amounts Due Within <u>One Year</u>
Revenue Bonds, Notes and Loans Payable:					
University of Tennessee Loans and Notes Payable	\$ 230,163	\$ 60,981	\$ (43,022)	\$ 248,122	\$ 12,773
Tennessee Board of Regents Loans and Notes Payable	251,169	38,894	(14,726)	275,337	21,051
Tennessee Housing Development Agency Bonds Payable	1,500,168	206,491	(262,926)	1,443,733	78,730
Less Deferred Amount on Refunding	(10,869)	(690)	1,256	(10,303)	
Tennessee Housing Development Agency Notes Payable	273,240	115,490	(76,830)	311,900	235,595
Nonmajor Component Units Bonds, Notes, and Loans Payable	686,557	267,024	(233,268)	720,313	73,397
Less Deferred Amount on Refunding	<u>(11,519)</u>	<u>(10,632)</u>	<u>858</u>	<u>(21,293)</u>	
Total Revenue Bonds, Notes and Loans Payable	\$ 2,918,909	\$ 677,558	\$ (628,658)	\$ 2,967,809	\$ 421,546
University of Tennessee Compensated Absences	62,972	45,632	(37,654)	70,950	37,654
University of Tennessee Due to Grantors, Deferred Revenue, and Annuities Payable	60,156	1,973	(2,118)	60,011	
Tennessee Board of Regents Compensated Absences	43,949	27,397	(23,349)	47,997	12,017
Tennessee Board of Regents Due to Grantors and Deferred Revenue	20,231	2,323	(1,884)	20,670	
Tennessee Housing Development Agency Escrow Deposits, Arbitrage Rebate Payable, and Deferred Revenue	21,663	5,242	(8,599)	18,306	1,485
Tennessee Housing Development Agency Compensated Absences	572	496	(429)	639	313
Tennessee Education Lottery Compensated Absences		584	(170)	414	188
Tennessee Education Lottery Deferred Lease	983	96	(68)	1,011	68
Nonmajor Component Units Compensated Absences	1,495	1,178	(1,099)	1,574	909
Nonmajor Component Units Capital Leases	<u>28</u>		<u>(19)</u>	<u>9</u>	<u>9</u>
Component Units Long-Term Obligations	<u>\$ 3,130,958</u>	<u>\$ 762,479</u>	<u>\$ (704,047)</u>	<u>\$ 3,189,390</u>	<u>\$ 474,189</u>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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The Tennessee State School Bond Authority, a nonmajor component unit, issues revenue bonds to make loans to higher education institutions in the State. The nonmajor component units' bonds payable includes the indebtedness on which the University of Tennessee and the Tennessee Board of Regents' loans payable are based.

The University of Tennessee component units are not included in the above schedule. At year end, University of Tennessee foundations' long-term liabilities amounted to \$148.995 million (\$730 thousand due within one year).

**N. Endowments – component units**

If a donor has not provided specific instructions to the University of Tennessee and the Tennessee Board of Regents institutions, state law permits each institution to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the institution is required to consider the institution's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

The University of Tennessee chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the University, 5 percent of a three-year moving average of the fair value of endowment investments has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2005, net appreciation of \$162.736 million is available to be spent, of which \$160.040 million is restricted to specific purposes.

While some Tennessee Board of Regents institutions/foundations spend all investment income, others choose to spend only a portion of the investment income (including changes in the value of investments) each year. Under the various spending plans established by each institution/foundation, different percentages and/or amounts have been authorized for expenditure. The remaining amounts, if any, are retained to be used in future years when the amounts computed using the spending plans exceed the investment income. At June 30, 2005, net appreciation of \$27.735 million is available to be spent, of which \$26.874 million is restricted to specific purposes.

**NOTE 6 – Other information**

**A. Risk management**

1. Teacher Group Insurance - The Teacher Group Insurance Fund, a public entity risk pool, was established in January 1986 to provide a program of health insurance coverage for the teachers and other education system employees of the political subdivisions of the State. In accordance with Tennessee Code Annotated 8-27-302 all local education agencies are eligible to participate. Fund members at June 30, 2005, included 122 local education agencies and two education cooperatives, with 43,899 teachers and support personnel, and 4,261 retirees enrolled in one of three health care options: preferred provider organization plan (PPO), point of service plan (POS), or a health maintenance organization (HMO). The State retains an immaterial risk of loss by this fund.

The Teacher Group Insurance Fund assumes responsibility for: determining plan benefits and eligibility, establishing premiums sufficient to fund plan obligations, recording and reporting financial transactions accurately, reporting enrollment to vendors, processing of claims submitted for services provided to plan participants, communicating with plan participants, and complying with appropriate state and federal laws and regulations. Plan participants are required to: pay premiums on time, file claims for services received, report changes in eligibility of themselves or their dependents, and ensure that only eligible expenses are paid by the plan. Individuals who cancel coverage may be required to demonstrate a qualifying event to rejoin the plan. Employers must wait twenty-four months before rejoining the plan should the employer elect to withdraw from the plan. In the case of individuals or groups rejoining the plan, a preexisting condition exclusion currently applies.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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The Teacher Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Teachers and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. At June 30, 2005, the Local Education Insurance Committee had established a reserve requirement, based upon claims payments for the prior 12 months, of 8% for the PPO, POS and HMO options. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Teacher Group Insurance Fund considers investment income in determining if a premium deficiency exists.

The Teacher Group Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Eighth Avenue North, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 741-0431.

As discussed above, the Teacher Group Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

	<u>2005</u>	<u>2004</u>
Unpaid Claims at Beginning of Year	\$ 26,373	\$ 22,823
Incurred Claims:		
Provision for insured events of the current year	276,566	263,736
Increase (decrease) in provision for insured events of prior years	<u>(5,692)</u>	<u>854</u>
Total Incurred Claims Expenses	<u>270,874</u>	<u>264,590</u>
Payments:		
Claims attributable to insured events of the current year	254,441	237,363
Claims attributable to insured events of prior years	<u>20,681</u>	<u>23,677</u>
Total Payments	<u>275,122</u>	<u>261,040</u>
Total Unpaid Claims at End of the Year	<u>\$ 22,125</u>	<u>\$ 26,373</u>

2. Local Government Group Insurance - The Local Government Group Insurance Fund, a public entity risk pool, was established in July 1991 to provide a program of health insurance coverage for employees of local governments and quasi-governmental organizations that were established for the primary purpose of providing services for or on the behalf of state and local governments. In accordance with Tennessee Code Annotated 8-27-207 all local governments and quasi-governmental organizations described above are eligible to participate. Fund members at June 30, 2005, included 35 counties, 85 municipalities and 235 quasi-governmental organizations, with 14,713 employees and 405 retirees maintaining coverage through one of four options: preferred provider plan, PPO limited plan, point of service plan, or a health maintenance organization. The State does not retain any risk for losses by this fund.

The Local Government Group Insurance Fund assumes responsibility for: determining plan benefits and eligibility, establishing premiums sufficient to fund plan obligations, recording and reporting financial transactions accurately, reporting enrollment to vendors, the processing of claims submitted for services provided to plan participants, communicating with plan participants, and complying with appropriate state and federal laws and regulations. Plan participants are required to: pay premiums on time, file claims for services received, report changes in eligibility of themselves or their dependents, and ensure that only eligible expenses are paid by the plan. Individuals who cancel

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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coverage may be required to demonstrate a qualifying event to rejoin the plan. Employers must wait twenty-four months before rejoining the plan should the employer elect to withdraw from the plan. In the case of individuals or groups rejoining the plan, a preexisting condition exclusion currently applies.

The Local Government Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. At June 30, 2005, the Local Government Insurance Committee had established a reserve requirement, based upon claims payments for the prior 12 months, of 8% for the PPO, POS and HMO options. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Local Government Group Insurance Fund considers investment income in determining if a premium deficiency exists.

The Local Government Group Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Eighth Avenue North, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 741-0431.

As discussed above, the Local Government Group Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

	<u>2005</u>	<u>2004</u>
Unpaid Claims at Beginning of Year	\$ 8,781	\$ 10,984
Incurred Claims:		
Provision for insured events of the current year	85,807	87,809
Increase (decrease) in provision for insured events of prior years	<u>(2,894)</u>	<u>(2,636)</u>
Total Incurred Claims Expenses	<u>82,913</u>	<u>85,173</u>
Payments:		
Claims attributable to insured events of the current year	78,943	79,028
Claims attributable to insured events of prior years	<u>5,886</u>	<u>8,348</u>
Total Payments	<u>84,829</u>	<u>87,376</u>
Total Unpaid Claims at End of the Year	<u>\$ 6,865</u>	<u>\$ 8,781</u>

3. Risk Management - It is the policy of the State not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice and workers' compensation. The State's management believes it is more economical to manage its risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The State purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the State's officials and employees. The RMF is also responsible for claims for damages to state owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from \$25,000 per occurrence to an aggregate of \$7.5 million. All agencies and authorities of the State participate in RMF, except for the Dairy Promotion Board, Certified Cotton Growers' Organization (a component unit) and the Tennessee Education Lottery Corporation (a component unit). RMF allocates the cost of providing claims servicing and claims payment by charging a premium to each agency based on a percentage of each organization's expected loss



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costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the State as a whole.

RMF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process does not result in an exact amount. Claims liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. At June 30, 2005, the present value of the casualty liability as actuarially determined was \$84.897 million (discounted at 3.5%). An additional liability of \$6.193 million for incurred property and other losses not considered in the actuary estimates has been included in the total claims liability at June 30, 2005. Changes in the balances of claims liabilities during fiscal years 2004 and 2005 were as follows (expressed in thousands):

	Beginning of Fiscal Year <u>Liability</u>	Current Year Claims and <u>Changes in Estimates</u>	Claim <u>Payments</u>	Balance at Fiscal <u>Year-End</u>
2003-2004	\$ 90,608	\$ 29,870	\$ (27,921)	\$ 92,557
2004-2005	\$ 92,557	\$ 28,873	\$ (30,340)	\$ 91,090

At June 30, 2005, RMF held \$114.4 million in cash and cash equivalents designated for payment of these claims.

4. Employee Group Insurance - The Employee Group Insurance Fund, an entity other than a pool, was established in 1979 to provide a program of health insurance coverage for the employees of the State with the risk retained by the State, therefore it is accounted for as an Internal Service Fund. In accordance with Tennessee Code Annotated 8-27-201 all state employees, retirees, and former employees with work related injuries are eligible to participate. Fund members at June 30, 2005, included 66,651 employees and 6,761 retirees enrolled in one of three options: preferred provider organization plan (PPO), point of service plan (POS), or health maintenance organization (HMO).

The Employee Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. At June 30, 2005, the State Insurance Committee had established a reserve requirement, based upon claims payments for the prior 12 months, of 8% for the PPO, POS and HMO options. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Employee Group Insurance Fund considers investment income in determining if a premium deficiency exists.

As discussed above, the Employee Group Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

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**JUNE 30, 2005**

	<u>2005</u>	<u>2004</u>
Unpaid Claims at Beginning of Year	\$ 47,673	\$ 42,806
Incurred Claims:		
Provision for insured events of the current year	502,152	476,729
Increase (decrease) in provision for insured events of prior years	<u>(11,826)</u>	<u>(3,206)</u>
Total Incurred Claims Expenses	<u>490,326</u>	<u>473,523</u>
Payments:		
Claims attributable to insured events of the current year	461,980	429,056
Claims attributable to insured events of prior years	<u>35,847</u>	<u>39,600</u>
Total Payments	<u>497,827</u>	<u>468,656</u>
Total Unpaid Claims at End of the Year	<u>\$ 40,172</u>	<u>\$ 47,673</u>

5. Medicare Supplement Insurance – In 1988, the State of Tennessee adopted legislation authorizing the provision of Medicare Supplement coverage for qualified retired state employees and teachers. Instituted in January 1989, the coverage was offered on a fully insured basis through December 2000. On January 1, 2001, the financial arrangement was converted to self-insured and a third plan option offered to participants.

In accordance with Tennessee Code Annotated 8-27-701, et. seq, the State Insurance Committee established a Medicare Supplement Insurance Fund, a public entity risk pool, on January 1, 2001. Fund members at June 30, 2005, include 23,111 retirees and dependents who selected one of three plan offerings; Plan One (NAIC Plan D), Plan Two (NAIC Plan H) and Plan Three (a PPO maintenance of benefit option).

The Medicare Supplement Insurance Fund assumes responsibility for determining plan benefits and eligibility, establishing premiums sufficient for fund plan obligations, recording and reporting financial transactions accurately, reporting enrollment to vendors, processing of claims submitted for services provided to plan participants, communicating with plan participants and complying with appropriate state and federal law and regulation. Plan participants are required to: pay premiums on time, provide for the filing of claims for services received, and report changes in eligibility of themselves and their dependents.

The Medicare Supplement Insurance Fund establishes claims liabilities for the self-insured coverage based on estimates of claims that have been reported but not settled, and of claims that have been incurred but not reported. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. At June 30, 2005, reserve requirements were established of 14%, based upon claim payments for the prior 12 months. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Medicare Supplement Insurance Fund considers investment income in determining if a premium deficiency exists.

The Medicare Supplement Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Eighth Avenue North, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 741-0431.

As discussed above, the Medicare Supplement Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

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	<u>2005</u>	<u>2004</u>
Unpaid Claims at Beginning of Year	\$ 5,342	\$ 5,533
Incurring Claims:		
Provision for insured events of the current year	41,232	38,155
Increase (decrease) in provision for insured events of prior years	<u>(419)</u>	<u>(794)</u>
Total Incurred Claims Expenses	<u>40,813</u>	<u>37,361</u>
Payments:		
Claims attributable to insured events of the current year	35,459	32,813
Claims attributable to insured events of prior years	<u>4,923</u>	<u>4,739</u>
Total Payments	<u>40,382</u>	<u>37,552</u>
Total Unpaid Claims at End of the Year	<u>\$ 5,773</u>	<u>\$ 5,342</u>

**B. Related organizations**

The State's officials are also responsible for appointing the members of the boards of other organizations, but the State's accountability for these organizations does not extend beyond making appointments. The State appoints the board members of the Beech River Watershed Development Authority, Carroll County Watershed Authority, Goodwyn Institute Commission, Watkins Institute Commission, Tennessee Alliance for Fitness and Health, Tennessee Competitive Export Corporation, Insurance Guaranty Association, Tennessee Sports Hall of Fame, Local Neighborhood Development Corporations, Tennessee Holocaust Commission, Inc., and Sports Festival, Inc.

**C. Jointly governed organizations**

The State in conjunction with 34 other states and Puerto Rico are members of the Pest Control Compact.

The State in conjunction with 12 other states and Puerto Rico are members of the Southern Growth Policies Board. Tennessee paid \$42,463 in fiscal year 2005 for membership dues.

The Southern Regional Education Compact was entered into with 15 other states. Tennessee paid \$22,500 in fiscal year 2005 for membership dues.

The Compact for Education was entered into with 49 other states, plus Puerto Rico, the Virgin Islands, American Samoa and District of Columbia. Tennessee paid \$68,700 in fiscal year 2005 for membership dues.

The Interstate Mining Compact has 18 member states, including Tennessee. Tennessee paid \$14,677 in fiscal year 2005 for membership dues.

The Southern States Energy Board is comprised of 16 member states, including Tennessee, plus Puerto Rico and the Virgin Islands. Tennessee paid \$34,267 in fiscal year 2005 for membership dues.

The Southeast Interstate Low Level Radioactive Waste Compact has 7 member states, including Tennessee.

The Chickasaw Trail Economic Development Compact has two member states in conjunction with one county in each State.

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**D. Joint ventures**

The State is a participant in a joint venture, the Tennessee-Tombigbee Waterway Development Compact, with the states of Alabama, Kentucky and Mississippi. The purpose of this compact is to promote the development of a navigable waterway connecting the Tennessee and Tombigbee Rivers and provide a nine foot navigable channel. The fiscal year end of the Tennessee Tombigbee Waterway is December 31. Financial statements for the Tennessee Tombigbee Waterway may be obtained at: P. O. Drawer 671, Columbus, MS 39703.

Presented below is summary financial data for this joint venture (expressed in thousands):

	<u>2004</u>	<u>2003</u>
Current Assets	\$ 202	\$ 286
Capital Assets	<u>33</u>	<u>33</u>
Total Assets	<u>235</u>	<u>319</u>
Invested in General Fixed Assets	33	33
Fund Balance	<u>202</u>	<u>286</u>
Total Liabilities and Fund Balance	<u>235</u>	<u>319</u>
Revenues	193	319
Expenditures	<u>277</u>	<u>304</u>
Excess of Revenues over (under) Expenditures	(84)	15
Beginning Fund Balance	<u>286</u>	<u>271</u>
Ending Fund Balance	<u>\$ 202</u>	<u>\$ 286</u>

**E. Post employment health insurance benefits**

1. General - The State offers an opportunity to its employees and eligible retirees to participate in a self-insured indemnity policy (preferred provider plan), a point of service plan, or health maintenance organizations. This post employment benefit is authorized under Tennessee Code Annotated 8-27-205. The indemnity policy provides benefits to plan participants in a comprehensive, major medical format involving a \$300 calendar year deductible and a \$1,300 per individual out-of-pocket limit. The plans incorporate typical provisions relating to utilization review, medical necessity, pre-existing conditions, coordination of benefits and subrogation of expenses. The plans offer benefit incentives for the use of designated providers and the plans maintain limitations on benefits provided for the treatment of mental illness and substance abuse.
2. Retirees - Retirees who are not yet eligible for Medicare benefits may continue participation in the plan subject to certain length of service and participation requirements. Upon Medicare eligibility, the retiree is afforded the opportunity to participate in a self-insured supplement policy not associated with the plan. The State pays a service determined amount for retirees who participate in the state sponsored Medicare supplement policy.

The funds collected for the plan's operation are recorded in the employee group insurance account. The plan's premiums are intended to fund benefits on a pay-as-you-go basis and no specified reserves have been established to fund retiree health benefits. Current retiree premium rates are based upon the retiree's length of service and range from 20 percent to 40 percent of the plan's total premium. The State provides no direct funding of retiree health benefits.

During the 2004-2005 fiscal year, the State Plan provided approximately \$59.1 million in benefits to an average of 6,641 retired employee participants.

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3. Cobra - Federal law requires large employers to continue health insurance benefits to employees who have terminated employment for up to 18 months. The former employees must pay 102 percent of the total premium (employee plus employer share), funded on a pay as you go basis. Insurance coverage is not mandatory if the former employee is eligible for Medicare or has coverage with another group medical plan. The State covered an average of 256 former employees during fiscal year 2004-2005, and the State Plan paid approximately \$2.7 million in benefits to this group.

#### **F. Gain contingencies**

In November 1998, Tennessee joined 45 other states, the District of Columbia and five territories in a settlement agreement against the nation's largest tobacco manufacturers, to seek redress against the tobacco companies for violations of state consumer and antitrust laws. The Master Settlement Agreement includes base payments to all states and territories totaling \$206 billion from 1998 through 2023, and continues in perpetuity. Tennessee's share of the settlement is expected to be \$4.8 billion through the year 2025. Third party lawsuits may affect future payments to Tennessee. Although Tennessee's share of the base payments may not change over time, the amount of the annual payment is subject to a number of modifications including adjustments for inflation and usage volumes. Some of the adjustments may result in increases in the payments (inflation, for example), while other adjustments will likely cause decreases in the payments (volume adjustments, for example). The net effect of these adjustments on future payments is unclear.

#### **G. Pension plans**

1. State Defined Benefit Plan - The State of Tennessee contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS) and consisting of 140 participating employers. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Benefit provisions are established by state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent; a COLA of one percent will be granted if the CPI increases between one-half percent and one percent; the maximum annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or by calling (615) 741-7063.

Most plan members are noncontributory. The State of Tennessee is required to contribute at an actuarially determined rate. The current rate is 10.54% of annual covered payroll. The contribution requirements of the State of Tennessee are established and may be amended by the TCRS Board of Trustees. The State's contributions to TCRS for the years ending June 30, 2005, 2004, and 2003, were \$448.154 million, \$271.298 million and \$264.321 million respectively, equal to the required contributions for each year.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

2. Political Subdivision Defined Benefits Plan - TCRS administers the Political Subdivision Pension Plan (PSPP), which is an agent multiple-employer defined benefit pension plan that covers employees of 444 participating political subdivisions. The PSPP provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan prior to July 1, 1979, are vested after four years of service. Members joining on or after July 1, 1979, are vested upon completion of 10 years of service, unless five years vesting is authorized by resolution of the chief governing body. Benefit provisions are established and amended by state statute. Cost of living adjustments (COLA) are the same as provided by SETHEPP except that the local government may elect (a) to provide no COLA benefits or (b) to provide COLA benefits under a non-compounding basis rather than the compounded basis applicable under SETHEPP. Pursuant to Article Two, Section 24 of the Constitution of the State of Tennessee, the State cannot mandate costs on local governments. Any benefit improvement may be adopted by the governing body of a governmental entity participating in the TCRS.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPP. The PSPP report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or by calling (615) 741-7063.

3. Defined Contribution Plan - The Optional Retirement Plan (ORP) as administered by the Tennessee Treasury Department is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 35, Part 4 of the TCA. This statute also sets out the plan provisions. State statutes are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff of the Tennessee Board of Regents institutions and the University of Tennessee system who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Plan members are noncontributory. The State of Tennessee contributes 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. The required contributions made by the State of Tennessee to the ORP were \$80.4 million for the year ending June 30, 2005.

Members are immediately 100 percent vested in the employer contributions made pursuant to the ORP. The Treasury Department has selected three investment vendors who offer a variety of investment products in which members are responsible for selecting how the contributions are invested. Each member makes the decision when to reallocate future contributions or when to transfer funds from one investment product to another. Funds are held by the investment vendor in the name of the member, not in the name of the State of Tennessee. The State of Tennessee has no discretion over these funds other than to make the initial contributions. Accordingly, the State of Tennessee is not acting in a trustee capacity nor does it have a fiduciary responsibility for the funds held by the investment vendors.

4. Deferred Compensation - The State offers its employees two deferred compensation plans, one established pursuant to IRC Section 457 and the other pursuant to IRC Section 401(k). All costs of administering and funding these programs are the responsibility of plan participants.

The Section 401(k) and Section 457 plan assets remain the property of the contributing employees, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution and withdrawal provisions for the plans. During the year ended June 30, 2005, contributions totaling \$77.2 million were made by employees participating in the plans. Another \$6.3 million was contributed by the State as matching contributions up to \$20 per employee per month for the 401(k) plan match.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

**H. Investment pool**

The State Pooled Investment Fund (SPIF) is an external investment pool sponsored by the State of Tennessee. The external portion of SPIF is the Local Government Investment Pool (LGIP) and is reported as a separate investment trust fund. The internal portion, consisting of funds belonging to the State and its component units, has been included in the various funds and component units.

A copy of the SPIF report can be obtained by writing Tennessee Treasury Department, Accounting Division, 9<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243-0231 or by calling (615) 741-1337.

**I. Loan guarantees**

The Tennessee Student Assistance Corporation (TSAC), a component unit, operates the Guaranteed Student Loans Program. The U. S. Department of Education (USDE) reinsures the student loans up to 100% of their principal amounts. At June 30, 2005, TSAC was guarantor of \$4.347 billion in student loans, substantially all of which were reinsured by the USDE. The State has no obligation under these student loan guarantees in the event of default.

**J. Nashville correctional facilities revenue bonds**

In June 1991, revenue bonds were issued by the Metropolitan Government of Nashville which were refunded in February 2002. The refunding bonds have an outstanding balance at June 30, 2005, of \$12.08 million. These bonds are obligations of the Metropolitan Government of Nashville. The State is committed to pay Nashville for the housing of locally sentenced inmates, including debt service on the bonds.

**K. Litigation**

A case was previously brought against the State pursuant to the Civil Rights of Institutionalized Persons Act alleging that the constitutional rights of residents at one of the State's mental retardation facilities were being violated. A remedial order was approved in 1994, and in 2000 the court issued an order increasing the number of class members from 452 to an estimated 3,000. An appeal was filed and a stay granted, but an agreement to resolve this issue was not approved by the district court.

The State is also party to numerous other legal proceedings, many of which normally recur in governmental operations. Some of these lawsuits, including the one enumerated above, may have a future budgetary programmatic impact. They will be addressed in future budgets.

**L. Federal grants**

The State receives significant financial assistance from the federal government in the form of grants and entitlements. The receipt of federal grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations. Substantially, all federal grants are subject to either federal single audits or financial and compliance audits by grantor agencies or their representatives. Questioned costs as a result of these audits may become disallowances after the appropriate review of federal agencies. Material disallowances are recognized as fund liabilities when the loss becomes probable and reasonably estimable.

The Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration (HCFA) performed a review of the provider taxes collected for the period beginning fiscal year 1992 through September 2000. The purpose of the review was to determine whether there was a positive correlation between the nursing home provider taxes and a state grant program for private pay patients of nursing homes (Grant Assistance Program). Because CMS believes there is a positive correlation between the nursing home provider taxes and the nursing home grant assistance program, it concluded that the provider taxes are impermissible resulting in a reduction in federal financial participation.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2005**

On January 19, 2001, the State received a notice of disallowance for this tax for the period October 1, 1992 through September 30, 2000. On February 16, 2001, the State appealed the disallowance. On June 11, 2001, the State received a second notice of disallowance for the period October 1, 2000 through March 31, 2001. On July 6, 2001, the State appealed the second disallowance and the two disallowances were consolidated for appeal. The State appealed the disallowance to the Department of Health & Human Services Appeal Board. On June 24, 2005, the Board issued its ruling reversing the disallowances in their entirety. The Board's decision represents the final action of the Department, so that there is no judicial review available to CMS from the decision. However, CMS has petitioned the Board for reconsideration of its decision. Action on that petition has been suspended while the parties discuss the possibility of a resolution that would meet certain concerns of CMS without disturbing the Board's decision on the disallowances themselves. Effective August 1, 2001, the State eliminated the grant arrangement that gave rise to the disallowances, and CMS has not challenged the validity of the State's nursing home tax subsequent to that date.

Other audits of the Medical Assistance Program (TennCare) have resulted in likely questioned costs that could be determined to be disallowances by the U.S. Department of Health and Human Services (HHS). These questioned costs relate to expenditures of resources for Certified Public Expenditures as it relates to Graduate Medical Education facilities and the allowable federal match for administrative expenditures related to one of the Behavioral Health Organizations. The ultimate liability to the federal government is currently under dispute and if HHS were to impose a liability, the State would appeal the decision.

**M. Subsequent events**

Primary Government

Subsequent to June 30, the State issued \$40 million in general obligation commercial paper. Also, in November 2005, the State issued 2005 Series B tax-exempt general obligation bonds in the amount of \$145 million to redeem commercial paper.

Component Units

Subsequent to June 30, Tennessee Housing Development Agency (THDA) issued \$100 million of revenue bonds (2005-1) in July 2005 and redeemed \$28.74 million of Series 2002CN-1 Notes. In November, the Agency issued \$100 million of revenue bonds and redeemed \$39.63 million of Series 2002CN-1 Notes and \$12.685 million of 2004CN-1. Also, in July the Agency drew \$34.62 million of Series 2004CN-1 Notes to refund bonds and in December the Agency drew \$203.835 million of Series 2004CN-1 Notes and redeemed \$167.225 million of Series 2002CN-1 Notes.

Subsequent to June 30, the Tennessee State School Bond Authority issued \$29 million in commercial paper. On December 8, the Authority issued \$17.545 million of Qualified Zone Academy Bonds.



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## **REQUIRED SUPPLEMENTARY INFORMATION**

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**STATE OF TENNESSEE**  
**REQUIRED SUPPLEMENTARY INFORMATION (RSI)**  
**Infrastructure Assets Reported Using the Modified Approach**

**ROADWAYS**

Measurement Scale

The state uses a Maintenance Rating Index (MRI) that addresses all elements of the roadway system. A statistical sample of randomly selected highway segments, representative of the entire subsystem, are inspected annually and rated in accordance with the MRI criteria. The following elements are rated: traveled pavement; shoulders; various roadside elements such as debris, grass height, slope erosion, and fencing; drainage elements such as culverts, cross drain pipes, and drain inlets; and traffic services such as signage, pavement markings, and guardrails. The MRI is a numerical score from 1 to 100, with 100 being a perfect score. The average MRI of all the rated segments is the reported condition level.

Established Condition Level

The state intends to maintain roadways so that the reported condition level each year does not fall below 75.

Assessed Conditions

The following table presents the average MRI of all rated segments.

<u>For the Period Ended</u>	<u>Maintenance Rating Index</u>
June 30, 2005	90.08
June 30, 2004	90.93
June 30, 2003	90.41

**BRIDGES**

Measurement Scale

The state maintains information on its 8,089 bridges in compliance with the National Bridge Inventory (NBI) guidelines established by the Federal Highway Administration. Bridges are inspected at least once every two years and the results are coded on a 0 to 9 scale (with 9 being the most desirable). A bridge coded 4 or less for its deck, superstructure, or substructure, or coded 2 or less for its structural evaluation or waterway adequacy is classified as "structurally deficient." A structurally deficient bridge is inadequate to carry legal loads, whether caused by structural deterioration, obsolete design standards, or an insufficient waterway opening. A bridge coded 3 or less for its structural evaluation, deck geometry, vertical or horizontal underclearance, water adequacy, or approach roadway alignment is classified as "functionally obsolete." A functionally obsolete bridge cannot properly accommodate the current traffic.

Established Condition Level

The state intends to maintain bridges so that 75 percent or more of the total deck area is not classified as structurally deficient or functionally obsolete.

Assessed Conditions

The following table presents the percentage of deck area whose condition assessment did not meet the criteria of structurally deficient or functionally obsolete according to the NBI.

<u>For the Two-Year Period Ended</u>	<u>Percentage of Deck Area Not Structurally Deficient or Functionally Obsolete</u>
June 30, 2004	80.00%
June 30, 2002	79.86%
June 30, 2000	82.35%

**STATE OF TENNESSEE**  
**REQUIRED SUPPLEMENTARY INFORMATION (RSI)**  
**Infrastructure Assets Reported Using the Modified Approach**  
**(Continued)**

**ESTIMATED AND ACTUAL COSTS TO MAINTAIN**

The following table presents the state's estimate of spending to preserve and maintain the roadways and bridges at, or above, the "Established Condition Level" cited above, and the actual amount spent (in thousands):

For the Period Ended <u>June 30</u>	<u>Roadways</u>		<u>Bridges</u>	
	<u>Estimated</u>	<u>Actual</u>	<u>Estimated</u>	<u>Actual</u>
2005	261,846	229,414	35,372	23,054
2004	290,027	260,066	29,247	36,514
2003	289,516	285,459	28,787	39,557
2002	290,583	278,683	28,830	20,527

Actual and estimated maintenance/preservation expenses are determined using the accrual basis of accounting. Additional years will be reported when data is available.

State of Tennessee  
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
Required Supplementary Information  
Major Governmental Funds  
For the Fiscal Year Ended June 30, 2005  
(Expressed in Thousands)

	General Fund			Variance With
	Budgeted Amounts		Actual	Final Budget -
	Original	Final	(Budgetary	Positive
			Basis)	(Negative)
Sources of financial resources:				
Fund balances (budgetary basis), July 1	\$ 1,344,229	\$ 1,344,229	\$ 1,344,229	
Add:				
Prior year encumbrances reappropriated	7,197	7,197	7,197	
Adjusted fund balances (budgetary basis), July 1	1,351,426	1,351,426	1,351,426	
Revenues:				
Taxes	4,864,700	4,864,700	5,198,843	\$ 334,143
Licenses, fines, fees, and permits	182,089	182,089	181,070	(1,019)
Interest on investments	10,000	10,000	29,101	19,101
Federal	7,338,809	7,662,384	7,439,578	(222,806)
Departmental services	1,961,330	2,296,564	2,252,108	(44,456)
Other	232,055	232,055	252,937	20,882
Other financing sources:				
Transfers in		109,651	109,651	
Total sources of financial resources	15,940,409	16,708,869	16,814,714	105,845
Uses of financial resources:				
Expenditures and encumbrances:				
General government				
Legislative	48,538	48,575	30,749	17,826
Secretary of State	40,194	41,269	33,692	7,577
Comptroller	75,853	75,290	70,431	4,859
Treasurer	39,803	41,520	38,076	3,444
Governor	9,496	9,496	5,460	4,036
Commissions	68,526	74,997	64,713	10,284
Finance and Administration	73,910	74,281	54,738	19,543
Personnel	10,807	13,997	11,566	2,431
General Services	22,889	22,889	18,789	4,100
Revenue	69,174	68,958	64,122	4,836
Miscellaneous Appropriations	72,089	74,343	15,055	59,288
Education				
Health and social services				
Veterans Affairs	3,546	3,447	3,333	114
Labor and Workforce Development	207,270	208,523	178,388	30,135
TennCare	8,384,445	8,831,699	8,569,292	262,407
Mental Health	232,550	233,989	226,598	7,391
Mental Retardation	694,511	714,304	694,173	20,131
Health	493,088	499,129	457,306	41,823
Human Services	1,757,272	1,882,998	1,822,212	60,786
Children's Services	571,555	610,626	571,423	39,203
Law, justice and public safety				
Judicial	223,167	224,701	214,934	9,767
Correction	575,784	558,093	527,261	30,832
Probation and Parole	64,179	64,179	59,837	4,342
Military	124,137	160,943	95,850	65,093
Bureau of Criminal Investigation	50,909	53,006	50,598	2,408
Safety	184,906	185,619	157,909	27,710
Recreation and resource development				
Agriculture	64,219	61,069	57,662	3,407
Tourist Development	14,132	14,132	12,070	2,062
Environment and Conservation	219,318	220,418	180,742	39,676
Economic and Community Development	113,837	116,073	70,726	45,347
Regulation of business and professions				
Commerce and Insurance	60,389	60,922	53,143	7,779
Financial Institutions	12,732	12,855	10,387	2,468
State Shared Taxes Paid to Local Governments	394,490	394,490	394,490	
Other financing uses:				
Transfers out	102,841	675,048	675,048	
Total uses of financial resources	15,080,556	16,331,878	15,490,773	841,105
Fund balances (budgetary basis), June 30	\$ 859,853	\$ 376,991	\$ 1,323,941	\$ 946,950

Education Fund			
Budgeted Amounts		Actual	Variance With
Original	Final	(Budgetary Basis)	Final Budget - Positive (Negative)
\$ 167,808	\$ 167,808	\$ 167,808	
688	688	688	
168,496	168,496	168,496	
3,709,700	3,709,700	3,635,145	\$ (74,555)
1,700	1,700	1,782	82
857,298	867,534	817,788	(49,746)
24,660	25,724	9,453	(16,271)
197,000	197,000	242,763	45,763
515,470	525,537	525,537	
5,474,324	5,495,691	5,400,964	(94,727)
5,269,299	5,291,831	5,094,118	197,713

402	3,484	3,484	
5,269,701	5,295,315	5,097,602	197,713
\$ 204,623	\$ 200,376	\$ 303,362	\$ 102,986

State of Tennessee  
Required Supplementary Information  
Reconciliation of Budget to GAAP  
Note to RSI  
For the Fiscal Year Ended June 30, 2005

(Expressed in thousands)

Explanation of differences between budgetary inflows and outflows and GAAP  
revenues and expenditures

	General Fund	Education Fund
<b>Sources of financial resources</b>		
Actual amounts (budgetary basis)	\$ 16,814,714	\$ 5,400,964
Differences - budget to GAAP:		
The fund balance at the beginning of the fiscal year is a budgetary resource but is not a current-year revenue for financial statement purposes.	(1,351,426)	(168,496)
Transfers from other funds are inflows of budgetary resources, but are not revenues for financial statement purposes.	(109,651)	(525,537)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	\$ <u>15,353,637</u>	\$ <u>4,706,931</u>
<b>Uses of financial resources</b>		
Actual amounts (budgetary basis)	\$ 15,490,773	\$ 5,097,602
Differences - budget to GAAP:		
Encumbrances for supplies, equipment, and construction are reported in the year the order is placed for budgetary purposes, but in the year the goods or services are received for financial reporting purposes.	(8,243)	(667)
Transfers to other funds are outflows of budgetary resources, but are not expenditures for financial statement purposes.	(675,048)	(3,484)
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	\$ <u>14,807,482</u>	\$ <u>5,093,451</u>

# SUPPLEMENTARY INFORMATION

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## NONMAJOR GOVERNMENTAL FUNDS

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Special Revenue Funds – A description of these funds is found later in this section.

Debt Service Fund - The Debt Service Fund is maintained to account for accumulation of resources for, and the payment of, principal and interest on general long-term debt.

Capital Projects Fund – The Capital Projects Fund is maintained to account for the acquisition or construction of major governmental general fixed assets financed principally by long-term bonds.

Permanent Funds – Description of these funds is found later in this section.



State of Tennessee  
Combining Balance Sheet  
Nonmajor Governmental Funds - By Fund Type  
June 30, 2005

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Permanent Funds	Total Nonmajor Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 461,512	\$ 2,950	\$ 234,837	\$ 34,967	\$ 734,266
Investments				217,526	217,526
Receivables:					
Taxes	72,712	4,708		24	77,444
Due from other governments	133,471		1,399		134,870
Interest				1,506	1,506
Other	396			3	399
Due from other funds	2,188				2,188
Due from component units			222	654	876
Inventories, at cost	6,294				6,294
Prepayments		4			4
Deferred charges and other	4,016				4,016
Loans receivable	11,464	6,920			18,384
Restricted assets:					
Cash and cash equivalents			24,482		24,482
<b>Total assets</b>	<b>\$ 692,053</b>	<b>\$ 14,582</b>	<b>\$ 260,940</b>	<b>\$ 254,680</b>	<b>\$ 1,222,255</b>
<b>Liabilities and fund balances</b>					
Liabilities:					
Accounts payable and accruals	\$ 112,226	\$ 577	\$ 15,879	\$ 6	\$ 128,688
Due to other funds	1,867				1,867
Due to component units				2,223	2,223
Unearned revenue	67,691	7,635			75,326
Deposits payable	1,587				1,587
Payable from restricted assets			5,115		5,115
Other	4,016				4,016
<b>Total liabilities</b>	<b>187,387</b>	<b>8,212</b>	<b>20,994</b>	<b>2,229</b>	<b>218,822</b>
Fund balances:					
Reserved for:					
Related assets	6,295				6,295
Encumbrances and contracts	71,456		70,191		141,647
Specific purposes:					
Construction projects	204,099		169,755		373,854
Wildlife Resources	28,967				28,967
Environmental programs	43,650				43,650
Job skills	21,868				21,868
Enhanced 911 service	30,920				30,920
Parks acquisition	17,994				17,994
Community development	13,943				13,943
Other specific purposes	65,424	6,370			71,794
Permanent funds:					
Expendable				15,490	15,490
Nonexpendable				236,961	236,961
Reserved for:					
Designated for other specific purposes	50				50
<b>Total fund balances</b>	<b>504,666</b>	<b>6,370</b>	<b>239,946</b>	<b>252,451</b>	<b>1,003,433</b>
<b>Total liabilities and fund balances</b>	<b>\$ 692,053</b>	<b>\$ 14,582</b>	<b>\$ 260,940</b>	<b>\$ 254,680</b>	<b>\$ 1,222,255</b>

State of Tennessee  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds - By Fund Type  
For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Permanent Funds	Total Nonmajor Governmental Funds
<b>Revenues</b>					
Taxes:					
Sales	\$ 36,349	\$ 43,179			\$ 79,528
Fuel	757,819	74,000			831,819
Business	5,080	126,321			131,401
Other	27,112				27,112
Licenses, fines, fees, and permits	348,594	2,700		\$ 5,855	357,149
Interest on investments	4,848			12,273	17,121
Federal	728,090		\$ 3,231		731,321
Departmental services	68,736	3,216	27,378		99,330
Other	5,511	407		456	6,374
Total revenues	1,982,139	249,823	30,609	18,584	2,281,155
<b>Expenditures</b>					
Current:					
General government	19,168				19,168
Education				6,696	6,696
Law, justice and public safety	5,543				5,543
Recreation and resources development	170,647			206	170,853
Regulation of business and professions	56,104				56,104
Transportation	1,411,906				1,411,906
State shared taxes paid to local governments	289,435				289,435
Debt service:					
Bond principal retirement		82,774			82,774
Commercial paper retirement		2,800	3,900		6,700
Bond interest		41,946			41,946
Commercial paper interest		1,509			1,509
Debt issuance costs		2,159			2,159
Capital outlay			119,730		119,730
Total expenditures	1,952,803	131,188	123,630	6,902	2,214,523
Excess (deficiency) of revenues over (under) expenditures	29,336	118,635	(93,021)	11,682	66,632
<b>Other financing sources (uses)</b>					
Bond and commercial paper proceeds			52,979		52,979
Refunding Bond Proceeds		355,053			355,053
Refunding Bond Premium		31,929			31,929
Refunding Payment to Escrow		(386,261)			(386,261)
Transfers in	88,413	4,047	84,836	402	177,698
Transfers out	(66,999)	(120,600)	(5)		(187,604)
Total other financing sources (uses)	21,414	(115,832)	137,810	402	43,794
Net changes in fund balances	50,750	2,803	44,789	12,084	110,426
Fund balances, July 1	453,916	3,567	195,157	240,367	893,007
Fund balances, June 30	\$ 504,666	\$ 6,370	\$ 239,946	\$ 252,451	\$ 1,003,433

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# NONMAJOR SPECIAL REVENUE FUNDS

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**Specific revenues, earmarked to finance particular activities of government, are accounted for in the Special Revenue Funds. A brief description of each fund follows.**

Highway Fund - This fund is maintained to account for revenues and expenditures associated with programs of the Department of Transportation. Funding of these programs is accomplished primarily from dedicated highway user taxes and funds received from the various federal transportation agencies. All federal funds accruing to the Highway Fund are received on a reimbursement basis covering costs incurred. It is the State's practice to appropriate matching dollars for jointly funded projects in the year of federal apportionment. This front-end state funding, together with multi-year disbursements on most projects, results in large cash balances in this fund. Effective July 1, 1986, the Department of Transportation began earning interest on certain unspent monies for a new highway construction program, while the General Fund earns the interest on the other highway program monies.

Wildlife Resources Agency - This agency is responsible for the preservation, management, enhancement and protection of the state's wildlife resources and their environs. An additional responsibility is the enforcement of boating safety on state lakes and streams. Revenues are derived principally from hunting and fishing licenses, fees and permits.

Criminal Injuries Compensation - The Treasury Department administers this fund for the award of compensation to victims (or their dependents) who suffer personal injury or death as a result of a criminal act. The primary revenue source is the privilege tax levied by the courts at the time of conviction of the offender.

Solid Waste - This program is administered by the Department of Environment and Conservation. Revenues collected for a tipping fee on solid waste are used to provide grants to local governments to reduce the solid waste going into landfills.

Job Skills - This program is administered by the Department of Economic and Community Development. Revenues are collected from a tax on employer's wages. The revenues will be used to enhance employment opportunities and to meet the needs of existing and new industries in the state.

Help America Vote - This program is administered by the Secretary of State. Federal funds, along with state matching dollars, are used in implementing the provisions of the federal Help America Vote Act. The provisions of the act require the funds be used to improve election administration and to replace punch card and lever voting machines.

Environmental Protection - This program is administered by the Department of Environment and Conservation. Revenues collected from the various fees under the environmental protection fund are used to offset the cost of administering regulatory environmental programs.

Hazardous Waste - This program is administered by the Department of Environment and Conservation. Revenues collected from applicants and holders of storage, treatment or disposal permits of hazardous waste are used to supervise the construction, operation, maintenance, closure and, where necessary, the post-closure care of hazardous waste facilities.

Parks Acquisition - This program is administered jointly by the Departments of Environment and Conservation, Agriculture and Wildlife Resources. Revenues collected from the transfer of real property are used to acquire parks by both local and state governments.

Supreme Court Boards - This organization was formed by the Tennessee Supreme Court to consider and investigate any alleged ground for discipline or alleged incapacity of any attorney, and to provide continuing legal education for attorneys. Revenues are collected from attorneys.

Underground Storage Tanks - This program is administered by the Department of Environment and Conservation. Revenues are collected primarily from a tax of four tenths of a cent per gallon on petroleum products and an annual fee on owners and operators of underground storage tanks containing petroleum substances.

Enhanced Emergency 911 Service - This program is administered by the Department of Commerce and Insurance. Revenues are collected from a monthly fee on users of cellular telephone services. This fee is used to enhance the effectiveness of response times when a cellular user calls 911.

Community Development - This fund is used to account for the federal monies received under the Community Development Block Grant Program.

Driver Education - This program is designed and coordinated by the Department of Safety. Highway safety is promoted by providing driver education, instruction and training in schools, colleges and community organizations. The \$2 fee for moving traffic violations is the source of funding for this program.

Abandoned Land Program - This program is administered by the Department of Environment and Conservation. Revenues collected from surface mining permit fees and forfeited performance bonds are used to reclaim and restore lands affected by abandoned mining operations.

Agricultural Non-Point Water Pollution - This program is administered by the Department of Agriculture. Revenues collected from the transfer of real property are used to abate pollution from agricultural sources.

Regulatory Boards - This program is administered by the Department of Commerce and Insurance. Revenues are collected from fees assessed on licenses to real estate brokers, affiliate real estate brokers or auctioneers. These revenues are used to pay court judgments for violations by brokers, contractors or auctioneers of the applicable acts or of any rules promulgated by the appropriate officials.

Salvage Title Enforcement - This program is administered by the Department of Safety. Revenues are collected on the titlement of salvage vehicles and are used to enforce motor vehicle title and salvage laws and inspection of rebuilt vehicles.

Dairy Promotion Board - This Board was formed to promote the consumption of milk and milk products. Revenue is derived from an assessment against commercial milk and milk product producers.

Drycleaner's Environmental Response - This program is administered by the Department of Environment and Conservation. Revenues collected from drycleaners are an annual registration fee and a fee for the various drycleaning solvents used.

Agricultural Regulatory Fund - This program is administered by the Department of Agriculture. Revenues are collected from fees on the various agricultural related industries regulated by the department. These fees are then used in the administration of this regulatory function.

Tennessee Regulatory Authority - The authority is responsible for executing and enforcing all statutes governing utilities. Revenues are derived principally from inspection and supervision fees.

Small and Minority Owned Business Assistance - This program provides loans and loan guarantees and technical assistance to small and minority-owned companies. Revenues collected during fiscal years 1997-2001, were derived from a fee on telecommunication service providers.

Sex Offender Treatment Program - This program was formed to standardize the evaluation, identification, treatment and continued monitoring of sex offenders. Revenue is derived from a fine on those convicted of a sex offense.

Fraud and Economic Crime - This program is administered by the District Attorneys General of the State. Revenues are collected from individuals prosecuted for bad checks. These monies are used to increase resources available to prosecute bad check cases.

State of Tennessee  
Combining Balance Sheet  
Nonmajor Special Revenue Funds  
June 30, 2005

(Expressed in Thousands)

	Highway	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Job Skills	Help America Vote
<b>Assets</b>						
Cash and cash equivalents	\$ 195,149	\$ 30,833	\$ 10,832	\$ 15,174	\$ 22,221	\$ 57,781
Receivables:						
Taxes	69,371	59	362	1,353	1	
Due from other governments	129,287	3,251				1
Other	141	9		1		
Due from other funds	2,183	2			3	
Inventories, at cost	6,294					
Deferred charges and other	4,016					
Loans receivable	1,494					
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 407,935</u>	<u>\$ 34,154</u>	<u>\$ 11,194</u>	<u>\$ 16,528</u>	<u>\$ 22,225</u>	<u>\$ 57,782</u>
<b>Liabilities and fund balances</b>						
Liabilities:						
Accounts payable and accruals	\$ 82,271	\$ 3,106	\$ 7,551	\$ 2,980	\$ 355	\$ 1
Due to other funds	1,470	275		9	2	
Unearned revenue	9,895					55,229
Deposits payable	1,586					
Other	4,016					
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>99,238</u>	<u>3,381</u>	<u>7,551</u>	<u>2,989</u>	<u>357</u>	<u>55,230</u>
Fund balances:						
Reserved for:						
Related assets	6,295					
Encumbrances and contracts	69,615	1,806				
Specific purposes:						
Construction projects	204,099					
Wildlife Resources		28,967				
Environmental programs				13,539		
Job skills					21,868	
Enhanced 911 service						
Parks acquisition						
Community development						
Other specific purposes	28,638		3,643			2,552
Unreserved:						
Designated for other specific purposes	50					
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	<u>308,697</u>	<u>30,773</u>	<u>3,643</u>	<u>13,539</u>	<u>21,868</u>	<u>2,552</u>
Total liabilities and fund balances	<u>\$ 407,935</u>	<u>\$ 34,154</u>	<u>\$ 11,194</u>	<u>\$ 16,528</u>	<u>\$ 22,225</u>	<u>\$ 57,782</u>

(continued on next page)

Environmental Protection	Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service	Community Development
\$ 10,978	\$ 6,602	\$ 19,593	\$ 2,947	\$ 9,070	\$ 39,926	\$ 3,973
	292			1,506		
	1		186	476		
				1		
						9,970
<u>\$ 10,978</u>	<u>\$ 6,895</u>	<u>\$ 19,593</u>	<u>\$ 3,133</u>	<u>\$ 11,053</u>	<u>\$ 39,926</u>	<u>\$ 13,943</u>
\$ 4	\$ 676	\$ 1,599	\$ 74	\$ 3,321	\$ 9,003	
	23			32	3	
	1,329		17	1,221		
<u>4</u>	<u>2,028</u>	<u>1,599</u>	<u>91</u>	<u>4,574</u>	<u>9,006</u>	
10,974	4,867			6,479		
		17,994			30,920	
			3,042			\$ 13,943
<u>10,974</u>	<u>4,867</u>	<u>17,994</u>	<u>3,042</u>	<u>6,479</u>	<u>30,920</u>	<u>13,943</u>
<u>\$ 10,978</u>	<u>\$ 6,895</u>	<u>\$ 19,593</u>	<u>\$ 3,133</u>	<u>\$ 11,053</u>	<u>\$ 39,926</u>	<u>\$ 13,943</u>

State of Tennessee  
Combining Balance Sheet  
Nonmajor Special Revenue Funds (continued)  
June 30, 2005

(Expressed in Thousands)

	Driver Education	Abandoned Land Program	Agricultural Non-Point Water Pollution	Regulatory Boards	Salvage Title Enforcement	Dairy Promotion Board
<b>Assets</b>						
Cash and cash equivalents	\$ 1,177	\$ 876	\$ 2,747	\$ 3,760	\$ 213	\$ 25
Receivables:						
Taxes	52					
Due from other governments						
Other						32
Due from other funds						
Inventories						
Deferred charges and other						
Loans receivable						
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 1,229</u>	<u>\$ 876</u>	<u>\$ 2,747</u>	<u>\$ 3,760</u>	<u>\$ 213</u>	<u>\$ 57</u>
<b>Liabilities and fund balances</b>						
Liabilities:						
Accounts payable and accruals	\$ 112		\$ 531	\$ 10	\$ 15	\$ 52
Due to other funds	1				5	
Unearned revenue						
Deposits payable						
Other						
	<u>          </u>		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>113</u>		<u>531</u>	<u>10</u>	<u>20</u>	<u>52</u>
Fund balances:						
Reserved for:						
Related assets						
Encumbrances and contracts				35		
Specific purposes:						
Construction projects						
Wildlife Resources						
Environmental programs		\$ 876	2,216			
Job skills						
Enhanced 911 service						
Parks acquisition						
Community development						
Other specific purposes	1,116			3,715	193	5
Unreserved:						
Designated for other specific purposes						
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	<u>1,116</u>	<u>876</u>	<u>2,216</u>	<u>3,750</u>	<u>193</u>	<u>5</u>
Total liabilities and fund balances	<u>\$ 1,229</u>	<u>\$ 876</u>	<u>\$ 2,747</u>	<u>\$ 3,760</u>	<u>\$ 213</u>	<u>\$ 57</u>

Drycleaner's Environmental Response	Agricultural Regulatory Fund	Tennessee Regulatory Authority	Small and Minority Owned Business Assistance	Sex Offender Treatment Program	Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
\$ 5,032	\$ 3,862	\$ 5,553	\$ 11,326	\$ 111	\$ 1,751	\$ 461,512
				8		72,712
	2	162 25				133,471
						396
						2,188
						6,294
						4,016
						11,464
<u>\$ 5,032</u>	<u>\$ 3,864</u>	<u>\$ 5,740</u>	<u>\$ 11,326</u>	<u>\$ 119</u>	<u>\$ 1,751</u>	<u>\$ 692,053</u>
\$ 331 2		\$ 230 45		\$ 4		\$ 112,226
		1				1,867
						67,691
						1,587
						4,016
<u>333</u>		<u>276</u>		<u>4</u>		<u>187,387</u>
						6,295
						71,456
						204,099
						28,967
4,699						43,650
						21,868
						30,920
						17,994
						13,943
	\$ 3,864	5,464	\$ 11,326	115	\$ 1,751	65,424
						50
<u>4,699</u>	<u>3,864</u>	<u>5,464</u>	<u>11,326</u>	<u>115</u>	<u>1,751</u>	<u>504,666</u>
<u>\$ 5,032</u>	<u>\$ 3,864</u>	<u>\$ 5,740</u>	<u>\$ 11,326</u>	<u>\$ 119</u>	<u>\$ 1,751</u>	<u>\$ 692,053</u>



State of Tennessee  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Special Revenue Funds  
For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	Highway	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Job Skills	Help America Vote
<b>Revenues</b>						
Taxes:						
Sales	\$ 36,349					
Fuel	739,484	\$ 522				
Business	5,072				\$ 8	
Other		6,500	\$ 4,359	\$ 5,484		
Licenses, fines, fees, and permits	208,325	32,579	2,732	5,447		
Interest on investments	19	591	189	332	461	\$ 52
Federal	703,237	18,270	3,167	22		29
Departmental services	56,790	5,165		85		
Other	4,841		669			
Total revenues	1,754,117	63,627	11,116	11,370	469	81
<b>Expenditures</b>						
General government			11,853			29
Law, justice and public safety						
Recreation and resources development		64,126		11,106	838	
Regulation of business and professions						
Transportation	1,411,906					
State shared taxes paid to local governments	289,435					
Total expenditures	1,701,341	64,126	11,853	11,106	838	29
Excess (deficiency) of revenues over (under) expenditures	52,776	(499)	(737)	264	(369)	52
<b>Other financing sources (uses)</b>						
Transfers in	74,000	913				2,500
Transfers out	(66,952)	(47)				
Total other financing sources (uses)	7,048	866				2,500
Net change in fund balances	59,824	367	(737)	264	(369)	2,552
Fund balances, July 1	248,873	30,406	4,380	13,275	22,237	-
Fund balances, June 30	\$ 308,697	\$ 30,773	\$ 3,643	\$ 13,539	\$ 21,868	2,552

(continued on next page)

<u>Environmental Protection</u>	<u>Hazardous Waste</u>	<u>Parks Acquisition</u>	<u>Supreme Court Boards</u>	<u>Underground Storage Tanks</u>	<u>Enhanced Emergency 911 Service</u>	<u>Community Development</u>
				\$ 17,813		
\$ 33,566	\$	\$ 6,500	\$ 2,920	12,827	\$ 36,124	
228	92	408	57	258	1,093	\$ 494
	1,667	90		1,351		
	6,165	59	126	189		
			1			
<u>33,794</u>	<u>7,924</u>	<u>7,057</u>	<u>3,104</u>	<u>32,438</u>	<u>37,217</u>	<u>494</u>
			2,898			
34,264	6,273	4,488		35,959		6,610
					55,981	
<u>34,264</u>	<u>6,273</u>	<u>4,488</u>	<u>2,898</u>	<u>35,959</u>	<u>55,981</u>	<u>6,610</u>
(470)	1,651	2,569	206	(3,521)	(18,764)	(6,116)
	1,000			10,000		
	<u>1,000</u>			<u>10,000</u>		
(470)	2,651	2,569	206	6,479	(18,764)	(6,116)
<u>11,444</u>	<u>2,216</u>	<u>15,425</u>	<u>2,836</u>	<u>-</u>	<u>49,684</u>	<u>20,059</u>
<u>\$ 10,974</u>	<u>\$ 4,867</u>	<u>\$ 17,994</u>	<u>\$ 3,042</u>	<u>\$ 6,479</u>	<u>\$ 30,920</u>	<u>\$ 13,943</u>

State of Tennessee  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Special Revenue Funds (continued)  
For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	Driver Education	Abandoned Land Program	Agricultural Non-Point Water Pollution	Regulatory Boards	Salvage Title Enforcement	Dairy Promotion Board
<b>Revenues</b>						
Taxes:						
Sales						
Fuel						
Business						
Other			\$ 3,000			\$ 1,138
Licenses, fines, fees, and permits	\$ 623	\$ 42		\$ 293	\$ 684	
Interest on investments		18	51	75		
Federal						
Departmental services		60		41		2
Other						
Total revenues	623	120	3,051	409	684	1,140
<b>Expenditures</b>						
General government						
Law, justice and public safety	527				687	
Recreation and resources development		110	1,973			1,135
Regulation of business and professions				123		
Transportation						
State shared taxes paid to local governments						
Total expenditures	527	110	1,973	123	687	1,135
Excess (deficiency) of revenues over (under) expenditures	96	10	1,078	286	(3)	5
<b>Other financing sources (uses)</b>						
Transfers in						
Transfers out						
Total other financing sources (uses)						
Net change in fund balances	96	10	1,078	286	(3)	5
Fund balances, July 1	1,020	866	1,138	3,464	196	-
Fund balances, June 30	\$ 1,116	\$ 876	\$ 2,216	\$ 3,750	\$ 193	\$ 5

<u>Drycleaner's Environmental Response</u>	<u>Agricultural Regulatory Fund</u>	<u>Tennessee Regulatory Authority</u>	<u>Small and Minority Owned Business Assistance</u>	<u>Sex Offender Treatment Program</u>	<u>Fraud and Economic Crime</u>	<u>Total Nonmajor Special Revenue Funds</u>
						\$ 36,349
						757,819
				\$ 131		5,080
\$ 1,052	\$ 2,785	\$ 7,371			\$ 1,224	27,112
107	87		\$ 232		4	348,594
		257				4,848
		24		30		728,090
						68,736
						5,511
<u>1,159</u>	<u>2,872</u>	<u>7,652</u>	<u>232</u>	<u>161</u>	<u>1,228</u>	<u>1,982,139</u>
		7,168	118			19,168
				192	1,239	5,543
906	2,859					170,647
						56,104
						1,411,906
						289,435
<u>906</u>	<u>2,859</u>	<u>7,168</u>	<u>118</u>	<u>192</u>	<u>1,239</u>	<u>1,952,803</u>
<u>253</u>	<u>13</u>	<u>484</u>	<u>114</u>	<u>(31)</u>	<u>(11)</u>	<u>29,336</u>
						88,413
						(66,999)
						21,414
253	13	484	114	(31)	(11)	50,750
<u>4,446</u>	<u>3,851</u>	<u>4,980</u>	<u>11,212</u>	<u>146</u>	<u>1,762</u>	<u>453,916</u>
<u>\$ 4,699</u>	<u>\$ 3,864</u>	<u>\$ 5,464</u>	<u>\$ 11,326</u>	<u>\$ 115</u>	<u>\$ 1,751</u>	<u>\$ 504,666</u>

State of Tennessee  
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual (Budgetary Basis)  
All Nonmajor Budgeted Special Revenue Funds  
For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	Budget	Highway Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 5,713	\$ 5,713	
Add:			
Prior year encumbrances liquidated	612	612	
Contract reserves reappropriated	231,530	231,530	
Adjusted fund balances (budgetary basis), July 1	237,855	237,855	
Revenues:			
Taxes	770,435	780,905	\$ 10,470
Licenses, fines, fees, and permits	193,300	208,325	15,025
Interest on investments		19	19
Federal	2,667,106	703,237	(1,963,869)
Departmental services	33,535	56,790	23,255
Other	13,800	4,841	(8,959)
Other financing sources - transfers in	74,000	74,000	
Total sources of financial resources	3,990,031	2,065,972	(1,924,059)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Transportation	3,662,913	1,703,240	1,959,673
State shared taxes to local governments	289,435	289,435	
Other financing uses-transfers out	66,952	66,952	
Total uses of financial resources	4,019,300	2,059,627	1,959,673
Fund balances (budgetary basis), June 30	\$ (29,269)	\$ 6,345	\$ 35,614

(continued on next page)

Wildlife Resources Agency			Criminal Injuries Compensation		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 28,743	\$ 28,743		\$ 4,380	\$ 4,380	
589	589				
29,332	29,332		4,380	4,380	
7,000	7,022	\$ 22	5,772	4,359	\$ (1,413)
37,800	32,579	(5,221)	3,100	2,732	(368)
	591	591		189	189
21,347	18,270	(3,077)	3,168	3,167	(1)
3,811	5,165	1,354	602	669	67
913	913				
100,203	93,872	(6,331)	17,022	15,496	(1,526)
			12,642	11,853	789
76,965	64,858	12,107			
47	47				
77,012	64,905	12,107	12,642	11,853	789
\$ 23,191	\$ 28,967	\$ 5,776	\$ 4,380	\$ 3,643	\$ (737)

State of Tennessee  
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual (Budgetary Basis)  
All Nonmajor Budgeted Special Revenue Funds (continued)  
For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

		Solid Waste Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
	Budget		
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 13,272	\$ 13,272	
Add:			
Prior year encumbrances liquidated			
Contract reserves reappropriated			
Adjusted fund balances (budgetary basis), July 1	13,272	13,272	
Revenues:			
Taxes	5,663	5,484	\$ (179)
Licenses, fines, fees, and permits	4,940	5,447	507
Interest on investments		332	332
Federal		22	22
Departmental services	234	85	(149)
Other			
Other financing sources - transfers in			
Total sources of financial resources	24,109	24,642	533
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation	11,986	11,103	883
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Transportation			
State shared taxes to local governments			
Other financing uses-transfers out			
Total uses of financial resources	11,986	11,103	883
Fund balances (budgetary basis), June 30	\$ 12,123	\$ 13,539	\$ 1,416

(continued on next page)

Job Skills		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 22,237	\$ 22,237	
22,237	22,237	
	8	\$ 8
503	461	(42)
22,740	22,706	(34)
9,502	838	8,664
9,502	838	8,664
\$ 13,238	\$ 21,868	\$ 8,630

Help America Vote		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
	\$ 52	\$ 52
\$ 2,000	29	(1,971)
2,500	2,500	
4,500	2,581	(1,919)
2,000	29	1,971
2,000	29	1,971
\$ 2,500	\$ 2,552	\$ 52



State of Tennessee  
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual (Budgetary Basis)  
All Nonmajor Budgeted Special Revenue Funds (continued)  
For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	Environmental Protection		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 11,444	\$ 11,444	
Add:			
Prior year encumbrances liquidated			
Contract reserves reappropriated			
Adjusted fund balances (budgetary basis), July 1	11,444	11,444	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	40,574	33,566	\$ (7,008)
Interest on investments		228	228
Federal			
Departmental services			
Other			
Other financing sources - transfers in			
Total sources of financial resources	52,018	45,238	(6,780)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation	40,574	34,264	6,310
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Transportation			
State shared taxes to local governments			
Other financing uses-transfers out			
Total uses of financial resources	40,574	34,264	6,310
Fund balances (budgetary basis), June 30	\$ 11,444	\$ 10,974	\$ (470)

(continued on next page)

Hazardous Waste			Parks Acquisition		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 2,216	\$ 2,216		\$ 15,425	\$ 15,425	
2,216	2,216		15,425	15,425	
			6,500	6,500	
	92	\$ 92		408	\$ 408
2,060	1,667	(393)		90	90
3,894	6,165	2,271		59	59
1,000	1,000				
9,170	11,140	1,970	21,925	22,482	557
11,309	6,273	5,036	6,600	4,488	2,112
11,309	6,273	5,036	6,600	4,488	2,112
\$ (2,139)	\$ 4,867	\$ 7,006	\$ 15,325	\$ 17,994	\$ 2,669

State of Tennessee  
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual (Budgetary Basis)  
All Nonmajor Budgeted Special Revenue Funds (continued)  
For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	Supreme Court Boards		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 2,836	\$ 2,836	
Add:			
Prior year encumbrances liquidated			
Contract reserves reappropriated			
Adjusted fund balances (budgetary basis), July 1	2,836	2,836	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	3,092	2,920	\$ (172)
Interest on investments		57	57
Federal			
Departmental services		126	126
Other		1	1
Other financing sources - transfers in			
Total sources of financial resources	5,928	5,940	12
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial	3,127	2,898	229
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Transportation			
State shared taxes to local governments			
Other financing uses-transfers out			
Total uses of financial resources	3,127	2,898	229
Fund balances (budgetary basis), June 30	\$ 2,801	\$ 3,042	\$ 241

(continued on next page)

Underground Storage Tanks			Enhanced Emergency 911 Service		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
			\$ 49,684	\$ 49,684	
			49,684	49,684	
\$ 18,100	\$ 17,813	\$ (287)			
13,528	12,827	(701)	26,419	36,124	\$ 9,705
	258	258		1,093	1,093
2,088	1,351	(737)			
	189	189			
10,000	10,000				
43,716	42,438	(1,278)	76,103	86,901	10,798
43,716	35,959	7,757	56,919	55,981	938
43,716	35,959	7,757	56,919	55,981	938
\$ -	\$ 6,479	\$ 6,479	\$ 19,184	\$ 30,920	\$ 11,736

State of Tennessee  
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual (Budgetary Basis)  
All Nonmajor Budgeted Special Revenue Funds (continued)  
For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

		Driver Education	
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 1,017	\$ 1,017	
Add:			
Prior year encumbrances liquidated			
Contract reserves reappropriated			
Adjusted fund balances (budgetary basis), July 1	1,017	1,017	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	588	623	\$ 35
Interest on investments			
Federal			
Departmental services			
Other			
Other financing sources - transfers in			
Total sources of financial resources	1,605	1,640	35
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety	588	524	64
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Transportation			
State shared taxes to local governments			
Other financing uses-transfers out			
Total uses of financial resources	588	524	64
Fund balances (budgetary basis), June 30	\$ 1,017	\$ 1,116	\$ 99

(continued on next page)

Abandoned Land Program		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 866	\$ 866	
866	866	
500	42	\$ (458)
	18	18
	60	60
1,366	986	(380)
500	110	390
500	110	390
\$ 866	\$ 876	\$ 10

Agricultural Non-Point Water Pollution		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 1,138	\$ 1,138	
1,138	1,138	
3,000	3,000	
	51	\$ 51
4,138	4,189	51
3,000	1,973	1,027
3,000	1,973	1,027
\$ 1,138	\$ 2,216	\$ 1,078

State of Tennessee  
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual (Budgetary Basis)  
All Nonmajor Budgeted Special Revenue Funds (continued)  
For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

		Regulatory Boards	
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 3,464	\$ 3,464	
Add:			
Prior year encumbrances liquidated			
Contract reserves reappropriated			
Adjusted fund balances (budgetary basis), July 1	3,464	3,464	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	359	293	\$ (66)
Interest on investments		75	75
Federal			
Departmental services		41	41
Other			
Other financing sources - transfers in			
Total sources of financial resources	3,823	3,873	50
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance	359	158	201
Transportation			
State shared taxes to local governments			
Other financing uses-transfers out			
Total uses of financial resources	359	158	201
Fund balances (budgetary basis), June 30	\$ 3,464	\$ 3,715	\$ 251

(continued on next page)

Salvage Title Enforcement		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 196	\$ 196	
196	196	
836	684	\$ (152)
1,032	880	(152)
836	687	149
836	687	149
\$ 196	\$ 193	\$ (3)

Drycleaner's Environmental Response		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 4,445	\$ 4,445	
1	1	
4,446	4,446	
2,469	1,052 107	\$ (1,417) 107
6,915	5,605	(1,310)
2,469	906	1,563
2,469	906	1,563
\$ 4,446	\$ 4,699	\$ 253



State of Tennessee  
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual (Budgetary Basis)  
All Nonmajor Budgeted Special Revenue Funds (continued)  
For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	Agricultural Regulatory Fund		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 3,851	\$ 3,851	
Add:			
Prior year encumbrances liquidated			
Contract reserves reappropriated			
Adjusted fund balances (budgetary basis), July 1	3,851	3,851	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	2,354	2,785	\$ 431
Interest on investments	120	87	(33)
Federal			
Departmental services			
Other			
Other financing sources - transfers in			
Total sources of financial resources	6,325	6,723	398
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture	3,124	2,859	265
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Transportation			
State shared taxes to local governments			
Other financing uses-transfers out			
Total uses of financial resources	3,124	2,859	265
Fund balances (budgetary basis), June 30	\$ 3,201	\$ 3,864	\$ 663

(continued on next page)

Tennessee Regulatory Authority		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 4,980	\$ 4,980	
4,980	4,980	
7,900	7,371	\$ (529)
350	257	(93)
4	24	20
13,234	12,632	(602)
8,217	7,168	1,049
8,217	7,168	1,049
\$ 5,017	\$ 5,464	\$ 447

Small and Minority Owned Business Assistance		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 11,212	\$ 11,212	
11,212	11,212	
80	232	\$ 152
11,292	11,444	152
518	118	400
518	118	400
\$ 10,774	\$ 11,326	\$ 552

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances  
 Budget and Actual (Budgetary Basis)  
 All Nonmajor Budgeted Special Revenue Funds (continued)  
 For the Fiscal Year Ended June 30, 2005

	Sex Offender Treatment Program		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 146	\$ 146	
Add:			
Prior year encumbrances liquidated			
Contract reserves reappropriated			
Adjusted fund balances (budgetary basis), July 1	146	146	
Revenues:			
Taxes	75	131	\$ 56
Licenses, fines, fees, and permits			
Interest on investments			
Federal			
Departmental services		30	30
Other			
Other financing sources - transfers in			
Total sources of financial resources	221	307	86
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction	200	192	8
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Transportation			
State shared taxes to local governments			
Other financing uses-transfers out			
Total uses of financial resources	200	192	8
Fund balances (budgetary basis), June 30	\$ 21	\$ 115	\$ 94

Total Nonmajor Special Revenue Funds			
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$	187,265	\$ 187,265	
	1,202	1,202	
	231,530	231,530	
	419,997	419,997	
	816,545	825,222	\$ 8,677
	337,759	347,370	9,611
	703	4,350	3,647
	2,698,119	728,090	(1,970,029)
	41,478	68,734	27,256
	14,402	5,511	(8,891)
	88,413	88,413	
	4,417,416	2,487,687	(1,929,729)
	3,127	2,898	229
	2,000	29	1,971
	13,160	11,971	1,189
	8,217	7,168	1,049
	200	192	8
	1,424	1,211	213
	6,124	4,832	1,292
	117,154	93,103	24,051
	76,965	64,858	12,107
	9,502	838	8,664
	57,278	56,139	1,139
	3,662,913	1,703,240	1,959,673
	289,435	289,435	
	66,999	66,999	
	4,314,498	2,302,913	2,011,585
\$	102,918	\$ 184,774	\$ 81,856

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## **DEBT SERVICE FUND**

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**The Debt Service Fund is maintained to account for accumulation of resources for and the payment of principal and interest on general long-term debt.**

State of Tennessee  
Schedule of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual (Budgetary Basis)  
Debt Service Fund  
For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	Debt Service Fund		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 3,567	\$ 3,567	
Revenues:			
Taxes	243,500	243,500	
Licenses, fines, fees, and permits	2,700	2,700	
Other		3,623	\$ 3,623
Other financing sources			
Transfers in	4,047	4,047	
Refunding Bond Proceeds	721	721	
Total sources of financial resources	254,535	258,158	3,623
Uses of financial resources:			
Expenditures and encumbrances:			
Debt Service	253,468	131,188	122,280
Other financing uses - transfers out	120,600	120,600	
Total uses of financial resources	374,068	251,788	122,280
Fund balances (budgetary basis), June 30	\$ (119,533)	\$ 6,370	\$ 125,903

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## PERMANENT FUNDS

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Chairs of Excellence Fund – This fund was created by the General Assembly in 1986. Its purpose is to endow faculty chairs at the Tennessee Board of Regents and University of Tennessee campuses in order to attract more highly qualified professors. For a chair to be established, private contributions which a school collects are matched by monies the state has appropriated to fund this program. The chair also receives the interest earned from investment of these matched monies.

Academic Scholars Fund – This fund is used to account for the academic scholars program administered by Tennessee Student Assistance Corporation. An endowment was established in 1986 to provide scholarships to superior students from the interest earnings.

Other – Various smaller funds that are legally restricted to the extent that only earnings, not principal can be spent.



State of Tennessee  
Combining Balance Sheet  
Permanent Funds  
June 30, 2005

(Expressed in Thousands)

	Chairs of Excellence	Academic Scholars	Other	Total Permanent Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 6,270	\$ 4	\$ 28,693	\$ 34,967
Investments	214,306	3,220		217,526
Receivables:				
Taxes			24	24
Interest	1,506			1,506
Other			3	3
Due from component units	654			654
	<u>654</u>			<u>654</u>
 Total assets	 \$ 222,736	 \$ 3,224	 \$ 28,720	 \$ 254,680
	<u>222,736</u>	<u>3,224</u>	<u>28,720</u>	<u>254,680</u>
 <b>Liabilities and fund balances</b>				
Liabilities:				
Accounts payable and accruals	6			\$ 6
Due to component units	2,223			2,223
	<u>2,223</u>			<u>2,223</u>
 Total liabilities	 2,229			 2,229
	<u>2,229</u>			<u>2,229</u>
 Fund balances:				
Reserved for:				
Expendable	13,698	\$ 519	\$ 1,273	15,490
Nonexpendable	206,809	2,705	27,447	236,961
	<u>220,507</u>	<u>3,224</u>	<u>28,720</u>	<u>252,451</u>
 Total fund balances	 220,507	 3,224	 28,720	 252,451
	<u>220,507</u>	<u>3,224</u>	<u>28,720</u>	<u>252,451</u>
 Total liabilities and fund balances	 \$ 222,736	 \$ 3,224	 \$ 28,720	 \$ 254,680
	<u>222,736</u>	<u>3,224</u>	<u>28,720</u>	<u>254,680</u>

State of Tennessee  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Permanent Funds  
For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	Chairs of Excellence	Academic Scholars	Other	Total Permanent Funds
<b>Revenues</b>				
Licenses, fines, fees and permits			\$ 5,855	\$ 5,855
Interest on investments	\$ 11,591	\$ 158	524	12,273
Other	150		306	456
Total revenues	11,741	158	6,685	18,584
<b>Expenditures</b>				
Education	6,209	487		6,696
Recreation and resources development			206	206
Total expenditures	6,209	487	206	6,902
Excess (deficiency) of revenues over (under) expenditures	5,532	(329)	6,479	11,682
<b>Other financing sources (uses)</b>				
Transfers in		402		402
Total other financing sources (uses)		402		402
Net change in fund balances	5,532	73	6,479	12,084
Fund balances, July 1	214,975	3,151	22,241	240,367
Fund balances, June 30	<u>\$ 220,507</u>	<u>\$ 3,224</u>	<u>\$ 28,720</u>	<u>\$ 252,451</u>

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# **GENERAL FUND SUPPLEMENTARY SCHEDULES**

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State of Tennessee  
Comparative Schedules of Revenues by Source  
General Fund  
For the Fiscal Years Ended June 30, 2005 and 2004

(Expressed in Thousands)

Revenues by Source	For the Year Ended	
	June 30, 2005	June 30, 2004
Taxes:		
Sales and use	\$ 2,518,446	\$ 2,394,797
Gasoline	9,579	10,537
Motor fuel	3,293	3,180
Gasoline inspection	676	658
Total fuel taxes	13,548	14,375
Franchise	510,214	492,650
Excise	735,463	600,553
Gross receipts	232,978	216,679
Beer	15,088	15,206
Alcoholic beverage	37,116	35,705
Mixed drink	21,572	21,017
Tobacco	647	644
Business	114,663	94,925
Insurance companies premium	337,481	327,030
Retaliatory	5,420	5,100
Workers compensation premium	50,537	51,141
Medicaid provider	99,677	100,230
Other	1,755	1,789
Total business taxes	2,162,611	1,962,669
Income	155,919	139,992
Privilege	264,798	259,977
Inheritance and estate	82,890	90,718
Other	631	581
Total other taxes	504,238	491,268
Total taxes	5,198,843	4,863,109
Licenses, fines, fees and permits:		
Motor vehicle registration	47,830	41,149
Motor vehicle title registration fees	8,696	8,616
Drivers licenses	23,712	22,744
Arrests, fines and fees	9,906	9,821
Regulatory board fees	33,847	28,902
Other	57,079	58,150
Total licenses, fines, fees and permits	181,070	169,382
Interest on investments	29,101	14,182
Federal - earned by state departments	7,439,578	7,024,459
Departmental services:		
Charges to the public	351,939	345,369
Interdepartmental charges	1,127,463	956,969
Charges to cities, counties, etc.	772,706	685,832
Total departmental services	2,252,108	1,988,170
Federal tax relief		96,733
Other	252,937	259,538
Total revenues by source	\$ 15,353,637	\$ 14,415,573

State of Tennessee  
Comparative Schedules of Expenditures by Function and Department  
General Fund  
For the Fiscal Years Ended June 30, 2005 and 2004

(Expressed in Thousands)

<u>Expenditures by function and department</u>	For the Year Ended	
	<u>June 30, 2005</u>	<u>June 30, 2004</u>
General government:		
Legislative	\$ 30,749	\$ 27,506
Secretary of State	33,424	32,819
Comptroller	70,118	67,071
Treasurer	38,075	32,174
Governor	5,461	5,171
Commissions	64,652	61,663
Finance and Administration	54,738	51,269
Personnel	11,563	10,481
General Services	18,716	17,172
Revenue	63,808	58,177
Miscellaneous Appropriations	14,771	17,055
Total general government	<u>406,075</u>	<u>380,558</u>
Health and social services:		
Veterans Affairs	3,333	3,077
Labor and Workforce Development	178,123	179,386
TennCare	8,569,292	7,631,266
Mental Health	226,108	218,200
Mental Retardation	693,586	610,172
Health	454,481	435,043
Human Services	1,822,212	1,687,674
Children's Services	571,162	544,053
Total health and social services	<u>12,518,297</u>	<u>11,308,871</u>
Law, justice and public safety:		
Judicial	214,934	198,904
Correction	526,183	498,383
Probation and Paroles	59,824	54,942
Military	95,385	97,097
Bureau of Criminal Investigation	50,400	43,245
Safety	157,550	145,203
Total law, justice and public safety	<u>1,104,276</u>	<u>1,037,774</u>
Recreation and resources development:		
Agriculture	57,305	56,131
Tourist Development	12,070	11,875
Environment and Conservation	180,742	183,151
Economic and Community Development	70,711	68,728
Total recreation and resources development	<u>320,828</u>	<u>319,885</u>
Regulation of business and professions:		
Commerce and Insurance	53,129	47,649
Financial Institutions	10,387	9,034
Total regulation of business and professions	<u>63,516</u>	<u>56,683</u>
State shared taxes paid to local governments	<u>394,490</u>	<u>362,895</u>
Total expenditures by function and department	<u>\$ 14,807,482</u>	<u>\$ 13,466,666</u>

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# NONMAJOR ENTERPRISE FUNDS

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**The Enterprise Funds are used to account for the operations of state agencies that provide goods or services to the general public on a user charge basis. The state's nonmajor enterprise operations are described below.**

State Loan Program - Operated since the early 1970's through the Department of Environment and Conservation, this program has provided financial assistance to local governments and utility districts for the construction of sewage treatment, solid waste recovery and waterworks facilities. In order for these borrowing entities to generate funds necessary to repay the loans, the imposition of a user's fee by the local systems was authorized. In order to finance this program, general obligation bonds were sold which, although remaining full faith and credit obligations of the state, are being retired from resources of this fund. Future financing for this program will be generated from the sale of revenue bonds or notes by the Local Development Authority.

Energy Loan Program - Created in 1988, this program makes loans to small businesses and local governments to improve energy efficiency.

Teacher Group Insurance - Established in January 1986, this fund is used to account for revenues received and claims paid on behalf of teachers of political subdivisions of the state who have elected coverage under a group medical plan similar to that offered state employees.

Local Government Group Insurance - Established in July 1991, this fund is used to account for revenues received and claims paid on behalf of employees of local governments and quasi-governmental organizations established for the primary purpose of providing services for or on the behalf of state and local governments. This plan is similar to the plan offered to state employees.

Drinking Water Loan – Created in 1998, this fund provides loans to local governments and utility districts for the improvement of drinking water systems. The initial sources of the monies are federal grants and state appropriations.

Grain Indemnity - This program is administered by the Department of Agriculture. Revenues are collected from fees on grain sold by producers. These revenues are to be used to protect commodity producers in the event of the financial failure of a commodity dealer or warehouseman.

Property Utilization, a division of the Department of General Services - This agency receives surplus federal property and redistributes it to civil defense units, health and educational institutions and other eligible donees within the state. The agency collects fees from the donees to offset operating costs. In addition, this agency handles surplus property by the various State agencies.

Medicare Supplement Insurance – Established in January 2001, this fund is used to account for revenues received and claims paid on behalf of retirees who are eligible for medicare coverage and elect coverage under the Medicare Supplement Insurance Plan.

Client Protection – This fund was created by the Tennessee Supreme Court to protect clients from dishonest conduct by attorneys. Revenue is mainly generated through annual registration fees for attorneys.



State of Tennessee  
Combining Statement of Net Assets  
Nonmajor Enterprise Funds  
June 30, 2005

(Expressed in Thousands)

	State Loan Program	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 3,054	\$ 21,263	\$ 79,679	\$ 15,480
Receivables:				
Accounts receivable			800	248
Loans receivable-current	1,645	1,382		
Due from component units				9
Total current assets	<u>4,699</u>	<u>22,645</u>	<u>80,479</u>	<u>15,737</u>
Noncurrent assets:				
Deferred charges	49			
Loans receivable	<u>3,760</u>	<u>4,112</u>		
Total noncurrent assets	<u>3,809</u>	<u>4,112</u>		
Total assets	<u>8,508</u>	<u>26,757</u>	<u>80,479</u>	<u>15,737</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accruals	434		22,126	6,865
Due to other funds				
Bonds payable-current	1,645			
Unearned revenue			<u>1,554</u>	<u>199</u>
Total current liabilities	<u>2,079</u>		<u>23,680</u>	<u>7,064</u>
Noncurrent liabilities:				
Bonds payable, net	3,587			
Other noncurrent liabilities				
Total noncurrent liabilities	<u>3,587</u>			
Total liabilities	<u>5,666</u>		<u>23,680</u>	<u>7,064</u>
<b>Net assets</b>				
Restricted				
Unrestricted (deficit)	<u>2,842</u>	<u>26,757</u>	<u>56,799</u>	<u>8,673</u>
Total net assets	<u>\$ 2,842</u>	<u>\$ 26,757</u>	<u>\$ 56,799</u>	<u>\$ 8,673</u>

Drinking Water	Grain Indemnity	Property Utilization	Medicare Supplement Insurance	Client Protection	Total Nonmajor Enterprise Funds
\$ 15,620	\$ 3,477	\$ 326	\$ 27,645	\$ 1,956	\$ 168,500
		60	247		1,355
1,638					4,665
		1			10
<u>17,258</u>	<u>3,477</u>	<u>387</u>	<u>27,892</u>	<u>1,956</u>	<u>174,530</u>
					49
<u>44,000</u>					<u>51,872</u>
<u>44,000</u>					<u>51,921</u>
<u>61,258</u>	<u>3,477</u>	<u>387</u>	<u>27,892</u>	<u>1,956</u>	<u>226,451</u>
11		144	5,772		35,352
		6			6
					1,645
			888		2,641
<u>11</u>		<u>150</u>	<u>6,660</u>		<u>39,644</u>
					3,587
		<u>45</u>			<u>45</u>
		<u>45</u>			<u>3,632</u>
<u>11</u>		<u>195</u>	<u>6,660</u>		<u>43,276</u>
61,247					61,247
<u>61,247</u>	<u>3,477</u>	<u>192</u>	<u>21,232</u>	<u>1,956</u>	<u>121,928</u>
<u>\$ 61,247</u>	<u>\$ 3,477</u>	<u>\$ 192</u>	<u>\$ 21,232</u>	<u>\$ 1,956</u>	<u>\$ 183,175</u>

State of Tennessee  
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Nonmajor Enterprise Funds  
For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	State Loan Program	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance
<b>Operating revenues</b>				
Charges for services	\$ 165	\$ 188		
Investment income	77	429		
Premiums			\$ 321,756	\$ 103,297
Other		9		
	<hr/>	<hr/>	<hr/>	<hr/>
Total operating revenues	242	626	321,756	103,297
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Operating expenses</b>				
Personal services				
Contractual services	33		22,530	6,191
Materials and supplies				
Rentals and insurance				
Interest	336			
Depreciation and amortization	10			
Benefits			272,441	82,431
Other	34		1,241	460
	<hr/>		<hr/>	<hr/>
Total operating expenses	413		296,212	89,082
	<hr/>		<hr/>	<hr/>
Operating income (loss)	(171)	626	25,544	14,215
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Nonoperating revenues (expenses)</b>				
Operating grants	(25)	70		
Interest income			1,297	224
	<hr/>	<hr/>	<hr/>	<hr/>
Total nonoperating revenues (expenses)	(25)	70	1,297	224
	<hr/>	<hr/>	<hr/>	<hr/>
Income (loss) before transfers	(196)	696	26,841	14,439
	<hr/>	<hr/>	<hr/>	<hr/>
Transfers in			9,870	
	<hr/>	<hr/>	<hr/>	<hr/>
Change in net assets	(196)	696	36,711	14,439
	<hr/>	<hr/>	<hr/>	<hr/>
Net assets, July 1	3,038	26,061	20,088	(5,766)
	<hr/>	<hr/>	<hr/>	<hr/>
Net assets, June 30	\$ 2,842	\$ 26,757	\$ 56,799	\$ 8,673
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Drinking Water	Grain Indemnity	Property Utilization	Medicare Supplement Insurance	Client Protection	Total Nonmajor Enterprise Funds
\$ 975		\$ 2,426		\$ 167	\$ 3,921
315					821
			\$ 37,388		462,441
					9
1,290		2,426	37,388	167	467,192
		827			827
530		589	5,606	15	35,494
		874			874
		136			136
					336
					10
			38,897		393,769
	\$ 139	56	632	1	2,563
530	139	2,482	45,135	16	434,009
760	(139)	(56)	(7,747)	151	33,183
6,286					6,331
	73		592	39	2,225
6,286	73		592	39	8,556
7,046	(66)	(56)	(7,155)	190	41,739
1,860			5,803		17,533
8,906	(66)	(56)	(1,352)	190	59,272
52,341	3,543	248	22,584	1,766	123,903
\$ 61,247	\$ 3,477	\$ 192	\$ 21,232	\$ 1,956	\$ 183,175

State of Tennessee  
Combining Statement of Cash Flows  
Nonmajor Enterprise Funds  
For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	State Loan Program	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance
<b>Cash flows from operating activities</b>				
Receipts from customers and users			\$ 324,092	\$ 104,072
Receipts from interfund services provided				
Payments to suppliers			(300,606)	(87,186)
Payments to employees				
Payments for interfund services used	\$ (33)		(1,241)	(4,259)
Net cash from (used for) operating activities	(33)		22,245	12,627
<b>Cash flows from noncapital financing activities</b>				
Operating grants received		\$ 70		
Transfers in			9,870	
Payments to component units	(25)			
Principal payments	(2,830)			
Interest paid	(392)			
Subsidy to borrowers	(34)			
Net cash from (used for) noncapital financing activities	(3,281)	70	9,870	
<b>Cash flows from investing activities</b>				
Loans issued		(1,090)		
Collection of loan principal	2,626	1,522		
Interest received	242	617	1,297	225
Net cash from (used for) investing activities	2,868	1,049	1,297	225
Net increase (decrease) in cash and cash equivalents	(446)	1,119	33,412	12,852
Cash and cash equivalents, July 1	3,500	20,144	46,267	2,628
Cash and cash equivalents, June 30	\$ 3,054	\$ 21,263	\$ 79,679	\$ 15,480
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>				
Operating income (loss)	\$ (171)	\$ 626	\$ 25,544	\$ 14,215
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	10			
Provision for uncollectible accounts		(9)		
Investment income	(77)	(429)		
Charges for services	(165)	(188)		
Interest expense	336			
Subsidy to borrowers	34			
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable			644	256
(Increase) decrease in due from component units				(9)
(Increase) decrease in inventories				
Increase (decrease) in accounts payable			(4,253)	(1,921)
Increase (decrease) in due to other funds				
Increase (decrease) in unearned revenue			310	86
Total adjustments	138	(626)	(3,299)	(1,588)
Net cash provided by (used for) operating activities	\$ (33)	\$ -	\$ 22,245	\$ 12,627

Drinking Water	Grain Indemnity	Property Utilization	Medicare Supplement Insurance	Client Protection	Total Nonmajor Enterprise Funds
		\$ 2,153	\$ 37,710	\$ 167	\$ 468,194
		330			330
\$ (76)	\$ (139)	(1,253)	(44,079)	(15)	(433,354)
		(828)		(1)	(829)
(455)		(441)	(632)		(7,061)
(531)	(139)	(39)	(7,001)	151	27,280
6,286					6,356
1,860			5,803		17,533
					(25)
					(2,830)
					(392)
					(34)
8,146			5,803		20,608
(7,406)					(8,496)
1,491					5,639
1,295	73		592	39	4,380
(4,620)	73		592	39	1,523
2,995	(66)	(39)	(606)	190	49,411
12,625	3,543	365	28,251	1,766	119,089
\$ 15,620	\$ 3,477	\$ 326	\$ 27,645	\$ 1,956	\$ 168,500
\$ 760	\$ (139)	\$ (56)	\$ (7,747)	\$ 151	\$ 33,183
					10
					(9)
(315)					(821)
(976)					(1,329)
					336
					34
		57	217		1,174
					(9)
		12			12
		(53)	424		(5,803)
		1			1
			105		501
(1,291)		17	746		(5,903)
\$ (531)	\$ (139)	\$ (39)	\$ (7,001)	\$ 151	\$ 27,280

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# INTERNAL SERVICE FUNDS

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**Internal Service Funds are used to account for the operations of state agencies that provide goods or services to other state agencies on a cost-reimbursement basis. The following operations are included in these funds:**

Office for Information Resources, a division of the Department of Finance and Administration - This division functions as the data and voice service bureau for state government.

Risk Management - This fund, administered by the Treasury Department, is used to pay awards for claims made against the state and for damage to state owned property.

Motor Vehicle Management, a division of the Department of General Services – This division is responsible for administering a uniform program for the operation and maintenance of all state vehicles.

General Services Printing, a division of the Department of General Services - This agency operates a printing facility to provide such services as general printing, typesetting and binding for state agencies located in Nashville. In addition, this division provides photographic services to the various state agencies.

Facilities Revolving Fund - This fund was created in 1989 to provide for the maintenance, repair and total housing needs of state government. This fund was phased in. The first year it included only downtown Nashville office space. In fiscal year 90-91, the fund expanded to include all office and warehouse space in Davidson, Knox, Madison, Shelby, Washington, Hamilton, and Sullivan counties. In fiscal year 91-92, the fund encompassed all office and warehouse space in the state, except institutional space.

Employee Group Insurance Fund - Established in January 1978, this fund is used to account for transactions pertaining to the state's self-insured group medical plan. Prior to 1978, medical insurance was provided by a private carrier. Group life and accident insurance premiums paid to a private insurance company are also recorded in this fund.

Food Services, a division of the Department of General Services - This division is responsible for the preparation and distribution of certain food to the various state institutions. This consists of food that is cooked and then immediately frozen and is then reheated at the institution.

Postal Services, a division of the Department of General Services - This agency processes and distributes incoming, outgoing and interdepartmental mail for state agencies located in Nashville.

Capitol Print Shop, a division of the Office of the Comptroller - This facility is responsible for providing printing, mailing and other office services for the state agencies located in the Capitol.

Purchasing, a division of the Department of General Services - This agency is responsible for the procurement of supplies, equipment and certain specialized services.

Central Stores, a division of the Department of General Services - This agency is responsible for the purchasing and distribution of office supplies to all state government and quasi-governmental entities that opt to use this service.

Records Management, a division of the Department of General Services - This division is responsible for the retention and disposal of official records.

Division of Accounts, a division of the Department of Finance and Administration – This division is responsible for the centralized accounting function for the state.

TRICOR - Tennessee Rehabilitative Initiative in Correction manages correctional industry, agriculture, and service operations. Its purpose is to employ and train inmates and provide products and services to state agencies, local governments, and not-for profit organizations.



State of Tennessee  
Combining Statement of Net Assets  
Internal Service Funds  
June 30, 2005

(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 84,525	\$ 114,389	\$ 14,259	\$ 121	\$ 31,763	\$ 174,594
Accounts receivable	900		215	1	309	1,287
Due from other funds	1,617				119	
Due from component units	370		4		17	
Inventories, at cost	1,550		7	74		
Prepaid expenses						
Total current assets	<u>88,962</u>	<u>114,389</u>	<u>14,485</u>	<u>196</u>	<u>32,208</u>	<u>175,881</u>
Noncurrent assets:						
Due from other funds	1,167					
Deferred charges					427	
Lease receivable					3,021	
Capital assets:						
Land, at cost					54,228	
Structures and improvements, at cost					438,805	
Machinery and equipment, at cost	86,979		140,356	1,331	403	
Less-accumulated depreciation	(64,830)		(69,174)	(899)	(180,064)	
Construction in progress					134	
Total capital assets, net of accumulated depreciation	<u>22,149</u>		<u>71,182</u>	<u>432</u>	<u>313,506</u>	
Total noncurrent assets	<u>23,316</u>		<u>71,182</u>	<u>432</u>	<u>316,954</u>	
Total assets	<u>112,278</u>	<u>114,389</u>	<u>85,667</u>	<u>628</u>	<u>349,162</u>	<u>175,881</u>
<b>Liabilities</b>						
Current liabilities:						
Accounts payable and accruals:						
Accounts payable	13,046	1,268	4,622	60	4,582	40,574
Accrued payroll and related deductions	2,149		97	120		
Due to other funds	268	5	9	13		
Lease obligations payable				69	36	
Bonds payable- current					13,263	
Unearned revenue		6	1,828	13		34,158
Other		30,086				
Total current liabilities	<u>15,463</u>	<u>31,365</u>	<u>6,556</u>	<u>275</u>	<u>17,881</u>	<u>74,732</u>
Noncurrent liabilities:						
Lease obligations payable				222	383	
Commercial paper payable			16,049		35,602	
Bonds payable, net					114,454	
Other noncurrent liabilities	1,226	61,004	72	80		
Total noncurrent liabilities	<u>1,226</u>	<u>61,004</u>	<u>16,121</u>	<u>302</u>	<u>150,439</u>	
Total liabilities	<u>16,689</u>	<u>92,369</u>	<u>22,677</u>	<u>577</u>	<u>168,320</u>	<u>74,732</u>
<b>Net assets</b>						
Invested in capital assets, net of related debt	22,149		55,133	141	149,768	
Unrestricted (deficit)	73,440	22,020	7,857	(90)	31,074	101,149
Total net assets	<u>\$ 95,589</u>	<u>\$ 22,020</u>	<u>\$ 62,990</u>	<u>\$ 51</u>	<u>\$ 180,842</u>	<u>\$ 101,149</u>

Food Services	Postal Services	Capitol Print Shop	Purchasing	Central Stores	Records Management	Division of Accounts	TRICOR	Total Internal Service Funds
\$ 1,187	\$ 239	\$ 209	\$ 321		\$ 145	\$ 3,788 1	\$ 7,730 446	\$ 433,270 3,159 1,736 443 7,798 176
	209 165	23 11		\$ 1,030			52 4,905	
<u>1,187</u>	<u>613</u>	<u>243</u>	<u>321</u>	<u>1,030</u>	<u>145</u>	<u>3,789</u>	<u>13,133</u>	<u>446,582</u>
								1,167 427 3,021
215 15,752 3,343 (6,165)								54,443 454,557 242,588 (327,785) 134
	2,110 (2,084)	737 (684)	23 (8)	7 (7)	183 (150)	45 (36)	7,071 (3,684)	
<u>13,145</u>	<u>26</u>	<u>53</u>	<u>15</u>	<u>-</u>	<u>33</u>	<u>9</u>	<u>3,387</u>	<u>423,937</u>
<u>13,145</u>	<u>26</u>	<u>53</u>	<u>15</u>		<u>33</u>	<u>9</u>	<u>3,387</u>	<u>428,552</u>
<u>14,332</u>	<u>639</u>	<u>296</u>	<u>336</u>	<u>1,030</u>	<u>178</u>	<u>3,798</u>	<u>16,520</u>	<u>875,134</u>
541 16 1	3 124 14	10 25	1 111 14	309 52 608		3 279 36	1,525 567 63	66,544 3,579 1,036 114 13,263 36,010 30,086
<u>558</u>	<u>141</u>	<u>35</u>	<u>126</u>	<u>969</u>	<u>53</u>	<u>318</u>	<u>2,160</u>	<u>150,632</u>
								632 51,651 114,454 63,143
12	77	24	62	28	21	160	377	
<u>12</u>	<u>77</u>	<u>24</u>	<u>62</u>	<u>28</u>	<u>48</u>	<u>160</u>	<u>377</u>	<u>229,880</u>
<u>570</u>	<u>218</u>	<u>59</u>	<u>188</u>	<u>997</u>	<u>101</u>	<u>478</u>	<u>2,537</u>	<u>380,512</u>
13,145 617	26 395	53 184	15 133	33	(3) 80	9 3,311	3,387 10,596	243,823 250,799
<u>\$ 13,762</u>	<u>\$ 421</u>	<u>\$ 237</u>	<u>\$ 148</u>	<u>\$ 33</u>	<u>\$ 77</u>	<u>\$ 3,320</u>	<u>\$ 13,983</u>	<u>\$ 494,622</u>

State of Tennessee  
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Internal Service Funds  
For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
<b>Operating revenue:</b>						
Charges for services	\$ 142,045	\$ 51,168	\$ 29,244	\$ 3,638	\$ 107,235	
Premiums						\$ 595,694
Other				6		
Total operating revenues	142,045	51,168	29,244	3,644	107,235	595,694
<b>Operating expenses</b>						
Personal services	32,693		1,368	1,833		
Contractual services	86,601	8,834	1,602	741	74,017	39,236
Materials and supplies	19,062		14,761	811	8,030	
Rentals and insurance	2,562	1,833	364	409	28,888	7,805
Depreciation and amortization	8,657		12,559	125	10,408	
Benefits		28,874				490,064
Other	606		3	14	1,074	2,685
Total operating expenses	150,181	39,541	30,657	3,933	122,417	539,790
Operating income (loss)	(8,136)	11,627	(1,413)	(289)	(15,182)	55,904
<b>Nonoperating revenues (expenses)</b>						
Taxes		4				
Interest income		2,205			905	2,978
Interest expense			(69)	(18)	(7,322)	
Total nonoperating revenues (expenses)		2,209	(69)	(18)	(6,417)	2,978
Income (loss) before contributions and transfers	(8,136)	13,836	(1,482)	(307)	(21,599)	58,882
Capital contributions	12			8	9,188	
Transfers in	21,396		8,327	250	1,506	487
Change in net assets	13,272	13,836	6,845	(49)	(10,905)	59,369
Net assets, July 1	82,317	8,184	56,145	100	191,747	41,780
Net assets, June 30	\$ 95,589	\$ 22,020	\$ 62,990	\$ 51	\$ 180,842	\$ 101,149

Food Services	Postal Services	Capitol Print Shop	Purchasing	Central Stores	Records Management	Division of Accounts	TRICOR	Total Internal Service Funds
\$ 4,394	\$ 15,981	\$ 754	\$ 3,790	\$ 8,478	\$ 1,219	\$ 10,812	\$ 24,468	\$ 403,226
								595,694
							1	7
4,394	15,981	754	3,790	8,478	1,219	10,812	24,469	998,927
186	2,020	552	1,843	890	765	4,592	8,134	54,876
4,198	676	345	1,688	904	206	5,820	3,701	228,569
3	12,965	101	28	6,467	10	72	12,957	75,267
20	727	27	266	199	239	331	718	44,388
617	54	22	5		13	9	518	32,987
								518,938
1	32		16	23	6	11	527	4,998
5,025	16,474	1,047	3,846	8,483	1,239	10,835	26,555	960,023
(631)	(493)	(293)	(56)	(5)	(20)	(23)	(2,086)	38,904
								4
					(3)			6,088
					(3)			(7,412)
(631)	(493)	(293)	(56)	(5)	(23)	(23)	(2,086)	(1,320)
								37,584
		200	22					9,208
								32,188
(631)	(493)	(93)	(34)	(5)	(23)	(23)	(2,086)	78,980
14,393	914	330	182	38	100	3,343	16,069	415,642
\$ 13,762	\$ 421	\$ 237	\$ 148	\$ 33	\$ 77	\$ 3,320	\$ 13,983	\$ 494,622

State of Tennessee  
Combining Statement of Cash Flows  
Internal Service Funds  
For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
<b>Cash flows from operating activities</b>						
Receipts from customers and users	\$ 4,247	\$ 13,428	\$ 610	\$ 38	\$ 1,607	\$ 235,596
Receipts from interfund services provided	138,091	37,877	28,113	3,599	105,514	381,380
Payments to suppliers	(100,769)	(34,133)	(8,121)	(1,239)	(89,623)	(562,015)
Payments to employees	(32,469)		(1,368)	(1,837)		
Payments for interfund services used	(10,878)	(6,051)	(5,265)	(711)	(22,351)	(2,685)
Net cash from (used for) operating activities	(1,778)	11,121	13,969	(150)	(4,853)	52,276
<b>Cash flows from noncapital financing activities</b>						
Negative cash balance implicitly financed						
Transfers in	21,396		8,327	250	1,506	487
Tax revenues received		4				
Net cash from (used for) noncapital financing activities	21,396	4	8,327	250	1,506	487
<b>Cash flows from capital and related financing activities</b>						
Purchase of capital assets	(11,645)		(32,900)		(6,083)	
Bond and commercial paper proceeds			16,049		22,917	
Proceeds from sale of capital assets			2,659		302	
Bond issuance cost					(59)	
Principal payments				(66)	(13,303)	
Interest paid			(69)	(18)	(7,461)	
Net cash from (used for) capital and related financing activities	(11,645)		(14,261)	(84)	(3,687)	
<b>Cash flows from investing activities</b>						
Interest received		2,205			905	2,978
Net cash from (used for) investing activities		2,205			905	2,978
Net increase (decrease) in cash and cash equivalents	7,973	13,330	8,035	16	(6,129)	55,741
Cash and cash equivalents, July 1	76,552	101,059	6,224	105	37,892	118,853
Cash and cash equivalents, June 30	\$ 84,525	\$ 114,389	\$ 14,259	\$ 121	\$ 31,763	\$ 174,594
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>						
Operating income (loss)	\$ (8,136)	\$ 11,627	\$ (1,413)	\$ (289)	\$ (15,182)	\$ 55,904
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation and amortization	8,657		12,559	119	10,408	
Loss on disposal of capital assets	417		(1,310)	2	866	
Bond issuance cost					204	
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(437)		382	(1)	(5)	828
(Increase) decrease in due from other funds	661				(90)	
(Increase) decrease in due from component units	85	137	2		(17)	
(Increase) decrease in inventories	(809)		3	14		
(Increase) decrease in prepaid expenses						
Increase (decrease) in accounts payable	(2,245)	(647)	3,341	4	(1,037)	(7,942)
Increase (decrease) in due to other funds	45	5		1		
Increase (decrease) in unearned revenue	(16)	(1)	405			3,486
Total adjustments	6,358	(506)	15,382	139	10,329	(3,628)
Net cash provided by (used for) operating activities	\$ (1,778)	\$ 11,121	\$ 13,969	\$ (150)	\$ (4,853)	\$ 52,276
<b>Noncash investing, capital and financing activities</b>						
Contributed capital assets	\$ 12				\$ 9,188	
Bond refunding proceeds					43,317	
Bond refunding premium					4,630	
Bond refunding proceeds to escrow agent					(47,831)	
Capital asset acquired by capital lease					436	
Total noncash investing, capital and financing activities	\$ 12				\$ 9,740	

Food Services	Postal Services	Capitol Print Shop	Purchasing	Central Stores	Records Management	Division of Accounts	TRICOR	Total Internal Service Funds
\$ 572	\$ 179	\$ 7	\$ 26	\$ 38	\$ 26	\$ 517	\$ 6,004	\$ 262,895
3,844	15,802	747	3,764	8,440	1,192	10,295	18,526	757,184
(4,030)	(13,373)	(427)	(182)	(6,951)	(57)	(964)	(16,255)	(838,139)
(185)	(2,026)	(546)	(1,860)	(881)	(776)	(4,603)	(8,341)	(54,892)
(206)	(981)	(30)	(1,820)	(721)	(417)	(5,265)	(1,405)	(58,786)
(5)	(399)	(249)	(72)	(75)	(32)	(20)	(1,471)	68,262
				75				75
		200	22					32,188
								4
		200	22	75				32,267
							(504)	(51,132)
								38,966
								2,961
					(8)			(59)
					(3)			(13,377)
					(11)			(7,551)
							(504)	(30,192)
								6,088
								6,088
(5)	(399)	(49)	(50)		(43)	(20)	(1,975)	76,425
1,192	638	258	371	-	188	3,808	9,705	356,845
\$ 1,187	\$ 239	\$ 209	\$ 321	\$ -	\$ 145	\$ 3,788	\$ 7,730	\$ 433,270
\$ (631)	\$ (493)	\$ (293)	\$ (56)	\$ (5)	\$ (20)	\$ (23)	\$ (2,086)	\$ 38,904
617	54	22	5		13	9	518	32,981
								(25)
								204
22							95	884
							(33)	571
	140	3		(37)			(123)	174
	(71)	9						(809)
(13)	(31)	10	(22)	(35)	(25)	(10)	143	(62)
	2		1	2		4	15	(8,509)
								75
								3,874
626	94	44	(16)	(70)	(12)	3	615	29,358
\$ (5)	\$ (399)	\$ (249)	\$ (72)	\$ (75)	\$ (32)	\$ (20)	\$ (1,471)	\$ 68,262
								\$ 9,200
								43,317
								4,630
								(47,831)
								436
								\$ 9,752

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# FIDUCIARY FUNDS

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**The Fiduciary Funds are used to account for assets held by the state in a fiduciary capacity.**

Pension and Other Employee Benefit Trust:

Pension Trust Fund - The Tennessee Consolidated Retirement System was established in July 1972 superseding seven former retirement systems. The accounts of each superseded system were transferred to the new system wherein separate accounting is maintained for assets and liabilities attributable to the various classes of members and beneficiaries. Benefits under the system are funded by contributions of members and employers. Effective July 1981, contributions of up to 5% of the retirement credible compensation of most classes of state employees, formerly paid by those employees, were assumed by the state pursuant to non-contributory legislation. The level of contributions is determined by actuarial valuation, the latest having been performed as of July 1, 2003. As of that date there were 198,917 active members and 83,121 retired members representing a 2.2% and 6.9% increase, respectively, since the previous actuarial valuation in 2001.

Employee Flexible Benefits - Established in January 1988, this fund is used to account for monies contributed by employees under the IRC Section 125 cafeteria plan.

Private-Purpose Trust Funds:

Baccalaureate Education - This trust was created by the General Assembly in 1996, for the purpose of allowing parents and other interested persons to purchase tuition units on behalf of a designated beneficiary. These units entitle the beneficiary to the payment of qualified tuition, room and board, fees, costs of books, supplies and equipment required for the enrollment or attendance at any accredited public or private, in-state or out-of-state institution.

Children in State Custody - This fund accounts for monies held and used for the benefit of children in the custody of the state. Monies held are from various sources including the Social Security Administration.

Oak Ridge Monitoring - Created in 2000 through a consent order won by the state with the United States Department of Energy (DOE), this fund is used to account for monies paid annually through fiscal year 2014 by the federal government to the state for future expenses at the Environmental Management Waste Management Facility at Oak Ridge. After the federal landfill is closed, the income generated from the corpus is to be used for monitoring and maintenance of the facility to ensure there is no radioactive leakage.

Duck River Water Supply - This fund accounts for monies received from the Tennessee Valley Authority to be held for the various Duck River utility districts.

Other - Other trust arrangements under which the principal and income benefit individuals or private organizations.

Agency Funds:

Local Government Fund - The purpose of the Local Government Fund is to serve as a clearing mechanism for state-shared taxes and other funds distributed to the various counties and cities of the state.

Contingent Revenue Fund - This fund is used to account for refundable deposits and other receipts held in trust until the state has the right to transfer them to operating funds or until there is proper authorization to disburse them directly to others.



State of Tennessee  
Combining Statement of Fiduciary Net Assets  
Pension and Other Employee Benefit Trust Funds  
June 30, 2005

(Expressed in Thousands)

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	Total Pension	Other Employee Benefit Trust	Total Pension (and Other Employee Benefit) Trust Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 685,337	\$ 119,358	\$ 804,695	\$ 465	\$ 805,160
Receivables:					
Member contributions	15,057	3,750	18,807		18,807
Employer contributions	17,147	12,167	29,314		29,314
Accrued interest	123,300	21,474	144,774		144,774
Accrued dividends	19,264	3,355	22,619		22,619
Foreign currency	151,385	26,365	177,750		177,750
Real estate income	1,191	207	1,398		1,398
Investments sold	24,487	4,265	28,752		28,752
Total receivables	351,831	71,583	423,414		423,414
Due from other funds	5,970		5,970	227	6,197
Due from component units	5,520		5,520	4	5,524
Investments, at fair value:					
Short term securities	197,578	34,410	231,988		231,988
Government bonds	9,953,162	1,733,442	11,686,604		11,686,604
Corporate bonds	2,147,044	373,929	2,520,973		2,520,973
Corporate stocks	9,603,998	1,672,632	11,276,630		11,276,630
Real estate	412,332	71,812	484,144		484,144
Total investments	22,314,114	3,886,225	26,200,339		26,200,339
Total assets	23,362,772	4,077,166	27,439,938	696	27,440,634
<b>Liabilities</b>					
Accounts payable and accruals	42,177	8,382	50,559	97	50,656
Foreign currency payable	147,439	25,678	173,117		173,117
Total liabilities	189,616	34,060	223,676	97	223,773
<b>Net assets</b>					
Held in trust for:					
Pension benefits	23,173,156	4,043,106	27,216,262		27,216,262
Employees' flexible benefits				599	599
Total net assets	\$ 23,173,156	\$ 4,043,106	\$ 27,216,262	\$ 599	\$ 27,216,861

State of Tennessee  
Combining Statement of Changes in Fiduciary Net Assets  
Pension and Other Employee Benefit Trust Funds  
For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEP)	Political Subdivisions Pension Plan (PSPP)	Total Pension	Other Employee Benefit Trust Fund	Total Pension (and Other Employee Benefit) Trust Funds
<b>Additions</b>					
Contributions:					
Members	\$ 160,686	\$ 54,921	\$ 215,607	\$ 6,697	\$ 222,304
Employers	448,154		448,154		448,154
Political subdivisions		181,096	181,096		181,096
Total contributions	608,840	236,017	844,857	6,697	851,554
Investment income:					
Net increase in fair value of investments	800,850	137,497	938,347		938,347
Interest	547,898	94,067	641,965		641,965
Dividends	217,309	37,309	254,618		254,618
Real estate income	26,569	4,562	31,131		31,131
Total investment income	1,592,626	273,435	1,866,061		1,866,061
Less: Investment expenses	13,394	2,300	15,694		15,694
Net investment income	1,579,232	271,135	1,850,367		1,850,367
Total additions	2,188,072	507,152	2,695,224	6,697	2,701,921
<b>Deductions</b>					
Annuity benefits:					
Retirement benefits	733,006	117,291	850,297		850,297
Cost of living	154,522	19,186	173,708		173,708
Death benefits	3,731	1,180	4,911		4,911
Other benefits				6,636	6,636
Refunds	15,329	15,487	30,816		30,816
Administrative expenses	3,008	2,738	5,746		5,746
Total deductions	909,596	155,882	1,065,478	6,636	1,072,114
Change in net assets held in trust for:					
Pension benefits	1,278,476	351,270	1,629,746		1,629,746
Employees' flexible benefits				61	61
Net assets, July 1	21,894,680	3,691,836	25,586,516	538	25,587,054
Net assets, June 30	\$ 23,173,156	\$ 4,043,106	\$ 27,216,262	\$ 599	\$ 27,216,861

State of Tennessee  
Combining Statement of Fiduciary Net Assets  
Private-Purpose Trust Funds  
June 30, 2005

(Expressed in Thousands)

	Baccalaureate Education	Children in State Custody	Oak Ridge Monitoring	Duck River Water Supply	Other	Total Private-Purpose Trust Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 4,779	\$ 19,038	\$ 5,277	\$ 9,885	\$ 1,222	\$ 40,201
Receivables:						
Taxes					51	51
Interest and dividends	432					432
Due from sale of investments	60					60
Total receivables	492				51	543
Due from other funds	9					9
Investments, at fair value:						
Government bonds	38,933					38,933
Mutual funds	13,339					13,339
Total investments	52,272					52,272
Total assets	57,552	19,038	5,277	9,885	1,273	93,025
<b>Liabilities</b>						
Accounts payable and accruals	61	91				152
Total liabilities	61	91				152
<b>Net assets</b>						
Held in trust for:						
Individuals, organizations and other governments	\$ 57,491	\$ 18,947	\$ 5,277	\$ 9,885	\$ 1,273	\$ 92,873

State of Tennessee  
Combining Statement of Changes in Fiduciary Net Assets  
Private-Purpose Trust Funds  
For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	Baccalaureate Education	Children in State Custody	Oak Ridge Monitoring	Duck River Water Supply	Other	Total Private-Purpose Trust Funds
<b>Additions</b>						
Contributions:						
Federal		\$ 7,478	\$ 1,000			\$ 8,478
Private	\$ 7,489				\$ 538	8,027
Other		4,521			103	4,624
	<u>7,489</u>	<u>11,999</u>	<u>1,000</u>		<u>641</u>	<u>21,129</u>
Total contributions						
	<u>7,489</u>	<u>11,999</u>	<u>1,000</u>		<u>641</u>	<u>21,129</u>
Investment income:						
Net increase in fair value of investments	808					808
Interest	1,500	457	106	\$ 201	22	2,286
	<u>2,308</u>	<u>457</u>	<u>106</u>	<u>201</u>	<u>22</u>	<u>3,094</u>
Total investment income						
	<u>2,308</u>	<u>457</u>	<u>106</u>	<u>201</u>	<u>22</u>	<u>3,094</u>
Total additions	<u>9,797</u>	<u>12,456</u>	<u>1,106</u>	<u>201</u>	<u>663</u>	<u>24,223</u>
<b>Deductions</b>						
Payments made under trust agreements	2,782	10,031			563	13,376
Refunds	565	3,144				3,709
Administrative expenses	354					354
	<u>3,701</u>	<u>13,175</u>			<u>563</u>	<u>17,439</u>
Total deductions						
	<u>3,701</u>	<u>13,175</u>			<u>563</u>	<u>17,439</u>
Change in net assets held in trust for:						
Individuals, organizations and other governments	6,096	(719)	1,106	201	100	6,784
Net assets, July 1	<u>51,395</u>	<u>19,666</u>	<u>4,171</u>	<u>9,684</u>	<u>1,173</u>	<u>86,089</u>
Net assets, June 30	<u>\$ 57,491</u>	<u>\$ 18,947</u>	<u>\$ 5,277</u>	<u>\$ 9,885</u>	<u>\$ 1,273</u>	<u>\$ 92,873</u>

State of Tennessee  
Combining Statement of Fiduciary Net Assets  
Agency Funds  
June 30, 2005

(Expressed in Thousands)

	Local Government	Contingent Revenue	Total Agency Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 226,051	\$ 82,211	\$ 308,262
Receivables:			
Taxes	282,929		282,929
Due from other funds		8,714	8,714
Due from component units		52	52
	<u>508,980</u>	<u>90,977</u>	<u>599,957</u>
Total assets			
	<u>508,980</u>	<u>90,977</u>	<u>599,957</u>
<b>Liabilities</b>			
Accounts payable and accruals	508,980	19,479	528,459
Amounts held in custody for others		71,498	71,498
	<u>508,980</u>	<u>90,977</u>	<u>599,957</u>
Total liabilities			
	<u>\$ 508,980</u>	<u>\$ 90,977</u>	<u>\$ 599,957</u>

State of Tennessee  
Combining Statement of Changes in Assets and Liabilities  
All Agency Funds  
For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

<u>Local Government Fund</u>	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
<u>Assets</u>				
Cash and cash equivalents	\$ 212,700	\$ 2,981,770	\$ 2,968,419	\$ 226,051
Accounts receivable	260,399	316,487	293,957	282,929
Total assets	<u>\$ 473,099</u>	<u>\$ 3,298,257</u>	<u>\$ 3,262,376</u>	<u>\$ 508,980</u>
<u>Liabilities</u>				
Accounts payable and accruals	\$ 473,099	\$ 2,624,200	\$ 2,588,319	\$ 508,980
Total liabilities	<u>\$ 473,099</u>	<u>\$ 2,624,200</u>	<u>\$ 2,588,319</u>	<u>\$ 508,980</u>
 <u>Contingent Revenue Fund</u>				
<u>Assets</u>				
Cash and cash equivalents	\$ 67,953	\$ 1,362,958	\$ 1,348,700	\$ 82,211
Due from other funds	8,009	8,818	8,113	8,714
Due from component units	52	52	52	52
Total assets	<u>\$ 76,014</u>	<u>\$ 1,371,828</u>	<u>\$ 1,356,865</u>	<u>\$ 90,977</u>
<u>Liabilities</u>				
Accounts payable and accruals	\$ 17,987	\$ 319,484	\$ 317,992	\$ 19,479
Amount held in custody for others	58,027	703,756	690,285	71,498
Total liabilities	<u>\$ 76,014</u>	<u>\$ 1,023,240</u>	<u>\$ 1,008,277</u>	<u>\$ 90,977</u>
 <u>Totals- All Agency Funds</u>				
<u>Assets</u>				
Cash and cash equivalents	\$ 280,653	\$ 4,344,728	\$ 4,317,119	\$ 308,262
Accounts receivable	260,399	316,487	293,957	282,929
Due from other funds	8,009	8,818	8,113	8,714
Due from component units	52	52	52	52
Total assets	<u>\$ 549,113</u>	<u>\$ 4,670,085</u>	<u>\$ 4,619,241</u>	<u>\$ 599,957</u>
<u>Liabilities</u>				
Accounts payable and accruals	\$ 491,086	\$ 2,943,684	\$ 2,906,311	\$ 528,459
Amount held in custody for others	58,027	703,756	690,285	71,498
Total liabilities	<u>\$ 549,113</u>	<u>\$ 3,647,440</u>	<u>\$ 3,596,596</u>	<u>\$ 599,957</u>

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# COMPONENT UNITS

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Tennessee Student Assistance Corporation - This fund is used to account for the guaranteed loans program administered by Tennessee Student Assistance Corporation (TSAC).

Community Services Agencies - In 1989, the Legislature created twelve Community Services Agencies which are to provide a mechanism to coordinate health care for indigents. In 1996, the title and focus of these agencies changed to that of facilitating the providing of services to children and other citizens from state agencies. The State has significant oversight responsibilities for these agencies, therefore, they have been incorporated into the Comprehensive Annual Financial Report. The twelve Community Services Agencies are:

Northeast Community Services Agency  
East Tennessee Community Services Agency  
Upper Cumberland Community Services Agency  
Southeast Community Services Agency  
Mid-Cumberland Community Services Agency  
South Central Community Services Agency  
Northwest Community Services Agency  
Southwest Community Services Agency  
Davidson County Community Services Agency  
Knox County Community Services Agency  
Shelby County Community Services Agency  
Hamilton County Community Services Agency

Housing Development Agency - Created by the legislature in 1973, the purpose of this agency is to improve the quality of housing available to lower and moderate income Tennesseans. This objective is accomplished in part by (1) making funds available for loans for residential construction or rehabilitation, (2) making or participating in the making of insured mortgage loans and (3) purchasing existing mortgages from lending institutions. These programs are funded primarily from the sale of revenue bonds or notes.

Tennessee Education Lottery Corporation - Created by the General Assembly in 2003, the purpose of the corporation is to operate a state lottery with net proceeds to be given to the State to be used for educational programs and purposes in accordance with the Constitution of Tennessee.

Tennessee Board of Regents - The Tennessee University and Community College System was created by the General Assembly in 1972. Its member institutions (six universities, thirteen community colleges, and twenty-seven technology centers) serve the state and its citizenry by providing education opportunities, research, continuing education and public activities. As a system, the institutions span the state and operate as a coordinated network of public education with each campus offering unique characteristics and services. The system consists of the following institutions:

## UNIVERSITIES

Austin Peay State University	Clarksville
East Tennessee State University	Johnson City
Middle Tennessee State University	Murfreesboro
Tennessee State University	Nashville
Tennessee Technological University	Cookeville
University of Memphis	Memphis

## COMMUNITY COLLEGES

Chattanooga State Technical Community College	Chattanooga
Cleveland State Community College	Cleveland
Columbia State Community College	Columbia
Dyersburg State Community College	Dyersburg
Jackson State Community College	Jackson
Motlow State Community College	Tullahoma
Nashville State Technical Community College	Nashville
Northeast State Technical Community College	Blountville
Pellissippi State Technical Community College	Knoxville
Roane State Community College	Harriman
Southwest Tennessee Community College	Memphis
Volunteer State Community College	Gallatin
Walters State Community College	Morristown

## TECHNOLOGY CENTERS

Athens	McKenzie
Chattanooga	McMinnville
Covington	Memphis
Crossville	Morristown
Crump	Murfreesboro
Dickson	Nashville
Elizabethton	Newbern
Harriman	Oneida
Hartsville	Paris
Hohenwald	Pulaski
Jacksboro	Ripley
Jackson	Shelbyville
Knoxville	Whiteville
Livingston	

The purpose of the technology centers is to provide occupational and technical training for current and future employees of existing and prospective industries and businesses of this state.

The University of Tennessee Board of Trustees - The University of Tennessee was first established in 1794 by the Legislature of the Federal Territory. Since that time, it has grown into an institution of twenty-four different colleges and schools. The locations of its four primary campuses, various experimental stations and extension services have made the university state-wide in physical presence as well as in services. The main campus is located in Knoxville. The other primary campuses are located in Memphis, Martin and Chattanooga.

Local Development Authority - This authority was created in 1978 for the purpose of providing to local governments, through the issuing of revenue bonds or notes, the financing assistance previously provided by the State Loan Program. The Authority has also issued bonds to assist non-profit corporations in the construction of mental health, mental retardation, or alcohol and drug facilities. In addition, the Authority may assist small business concerns in financing pollution control facilities, farmers in financing certain capital improvements and airport authorities and municipal airports in financing improvements.

Veterans' Homes Board - Created in 1988, the primary purpose of the homes is to provide support and care for honorably discharged veterans of the United States Armed Forces. The revenue sources are the Veterans' Administration, Medicaid, and a user fee.

Child Care Facilities - This organization was formed to create new child care slots in Tennessee by guaranteeing loans, making direct loans, and making grants. The sources of revenues are interest on loans made and grants from the federal government.

Tennessee State School Bond Authority (TSSBA) - Established in 1965, the TSSBA provides a mechanism for financing building projects for the state's universities. Agreements are executed between the governing boards of the institutions and the TSSBA, and revenue bonds are issued using the constructed facilities as collateral. Charges levied on the universities provide the funds necessary for payment of principal and interest on bonds. In addition, the Authority issues Qualified Zone Academy Bonds, which are part of a federal government program to finance loans to qualifying K-12 schools in the state.

Certified Cotton Growers' Organization - This organization was formed to aid in the eradication of the boll weevil. Revenues are collected from assessments on cotton growers and from state appropriations.



State of Tennessee  
Combining Statement of Net Assets  
Component Units  
June 30, 2005

(Expressed in Thousands)

	Governmental Fund Types					
	Tennessee Student Assistance Corporation	Northeast	East Tennessee	Upper Cumberland	Southeast	Mid- Cumberland
<b>Assets</b>						
Cash and cash equivalents	\$ 2,745	\$ 611	\$ 968	\$ 329	\$ 1,052	\$ 580
Cash on deposit with fiscal agent						
Investments						
Investments with fiscal agent						
Receivables, net	1,345	6	14	15	15	25
Due from primary government		896	1,362	287	717	993
Inventories, at cost						
Prepayments			8	1	2	16
Loans receivable	4,027					
Deferred charges and other						
Restricted assets:						
Cash and cash equivalents						
Investments						
Receivables, net						
Capital assets:						
Land, at cost						
Infrastructure						
Structures and improvements, at cost						
Machinery and equipment, at cost		31	168	66	78	249
Less accumulated depreciation		(27)	(145)	(41)	(65)	(214)
Construction in progress						
Total assets	<u>8,117</u>	<u>1,517</u>	<u>2,375</u>	<u>657</u>	<u>1,799</u>	<u>1,649</u>
<b>Liabilities</b>						
Accounts payable and accruals	2,402	331	571	197	256	1,329
Due to primary government	14	642	231	58	644	
Unearned revenue	156					
Advance from federal government	423					
Other						
Noncurrent liabilities:						
Due within one year	55	83	90	65	20	106
Due in more than one year	62	124	59	42	64	111
Total liabilities	<u>3,112</u>	<u>1,180</u>	<u>951</u>	<u>362</u>	<u>984</u>	<u>1,546</u>
<b>Net assets</b>						
Invested in capital assets, net of related debt		4	23	21	13	13
Restricted for:						
Debt service						
Capital projects						
Single family bond programs						
Other						
Permanent and endowment:						
Expendable						
Nonexpendable						
Unrestricted	<u>5,005</u>	<u>333</u>	<u>1,401</u>	<u>274</u>	<u>802</u>	<u>90</u>
Total net assets	<u>\$ 5,005</u>	<u>\$ 337</u>	<u>\$ 1,424</u>	<u>\$ 295</u>	<u>\$ 815</u>	<u>\$ 103</u>

Governmental Fund Types

South Central	Northwest	Southwest	Davidson County	Knox County	Shelby County	Hamilton County
\$ 478	\$ 752	\$ 877	\$ 348	\$ 257	\$ 1,057	\$ 367
	8		274	4		1
468	562	415	345	176	1,113	155
2	1	7		2	16	1
26 (22)	36 (27)	36 (32)		55 (54)	317 (291)	28 (24)
<u>952</u>	<u>1,332</u>	<u>1,303</u>	<u>967</u>	<u>440</u>	<u>2,212</u>	<u>528</u>
198	237	402	796	167	564	119
228	596	371		40	253	48
38	84	98		48	175	56
30	74	79		22	7	
<u>494</u>	<u>991</u>	<u>950</u>	<u>796</u>	<u>277</u>	<u>999</u>	<u>223</u>
4	8	4			25	4
<u>454</u>	<u>333</u>	<u>349</u>	<u>171</u>	<u>163</u>	<u>1,188</u>	<u>301</u>
\$ <u>458</u>	\$ <u>341</u>	\$ <u>353</u>	\$ <u>171</u>	\$ <u>163</u>	\$ <u>1,213</u>	\$ <u>305</u>

(continued on next page)

(continued from previous page)

State of Tennessee  
Combining Statement of Net Assets  
Component Units  
June 30, 2005

(Expressed in Thousands)

	Proprietary Fund Types			
	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee
<b>Assets</b>				
Cash and cash equivalents	\$ 444,096	\$ 54,381	\$ 411,582	\$ 518,645
Cash on deposit with fiscal agent				
Investments	165,474		334,779	595,233
Investments with fiscal agent				
Receivables, net	31,358	35,284	138,115	214,779
Due from primary government	1		1,334	1,256
Inventories, at cost			5,369	8,281
Prepayments		3,716	3,195	6,021
Loans receivable	1,394,431			
Deferred charges and other	11,124		617	2,518
Restricted assets:				
Cash and cash equivalents	490	288		
Investments	186,856			
Receivables, net	2,367			
Capital assets:				
Land, at cost			91,976	62,109
Infrastructure			151,274	64,208
Structures and improvements, at cost		307	1,454,544	1,261,717
Machinery and equipment, at cost	93	3,602	352,457	377,268
Less accumulated depreciation	(77)	(928)	(902,454)	(779,386)
Construction in progress			112,634	103,837
Total assets	<u>2,236,213</u>	<u>96,650</u>	<u>2,155,422</u>	<u>2,436,486</u>
<b>Liabilities</b>				
Accounts payable and accruals	38,070	21,315	95,313	112,387
Due to primary government	76	65,963	4,692	3,838
Unearned revenue	1,268	786	35,261	67,318
Advance from federal government				
Other			12,729	11,515
Noncurrent liabilities:				
Due within one year	316,123	256	33,068	51,157
Due in more than one year	1,448,152	1,169	310,936	476,921
Total liabilities	<u>1,803,689</u>	<u>89,489</u>	<u>491,999</u>	<u>723,136</u>
<b>Net assets</b>				
Invested in capital assets, net of related debt	16	2,981	985,094	713,142
Restricted for:				
Debt service			15,442	303
Capital projects			15,734	24,760
Single family bond programs	421,584			
Other	3,614	7,161	92,379	184,719
Permanent and endowment:				
Expendable			27,735	162,736
Nonexpendable			190,985	380,574
Unrestricted	7,310	(2,981)	336,054	247,116
Total net assets	<u>\$ 432,524</u>	<u>\$ 7,161</u>	<u>\$ 1,663,423</u>	<u>\$ 1,713,350</u>

Proprietary Fund Types					
Local Development Authority	Veterans' Homes Board	Child Care Facilities	State School Bond Authority	Certified Cotton Growers'	Total Component Units
\$ 14,045	\$ 1,539	\$ 184	\$ 53,013	\$ 1,459	\$ 1,509,365
1,262	30				1,096,778
			370		370
223	758		3,965	34	426,223
	638				10,718
	78				13,728
	4				12,992
71,102		25	535,884		2,005,469
313	480		5,476	171	20,699
	1,508		7,509		9,795
4,301			12,300		203,457
					2,367
	252				154,337
	676				216,158
	10,382				2,726,950
	2,463				736,973
	(4,642)				(1,688,429)
	632				217,103
91,246	14,798	209	618,517	1,664	7,675,053
1,287	1,394	8	4,447	68	281,858
	315	1			78,010
			12,941		117,730
					423
	103	19			24,366
48,775	165	5	22,050	2,402	474,919
30,161	4,032	5	572,279	19,137	2,863,466
80,223	6,009	38	611,717	21,607	3,840,772
	5,566				1,706,918
	226				15,971
					40,494
					421,584
351	747				288,971
					190,471
					571,559
10,672	2,250	171	6,800	(19,943)	598,313
\$ 11,023	\$ 8,789	\$ 171	\$ 6,800	\$ (19,943)	\$ 3,834,281

State of Tennessee  
Combining Statement of Activities  
Component Units  
For the Year Ended June 30, 2005

(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Component units					
Higher education institutions:					
Board of Regents	\$ 1,719,612	\$ 577,277	\$ 457,663	\$ 38,933	\$ (645,739)
University of Tennessee	1,444,253	408,242	581,269	27,693	(427,049)
Total higher education institutions	3,163,865	985,519	1,038,932	66,626	(1,072,788)
Loan programs:					
Tennessee Student Assistance Corporation	64,266	14,021	5,802		(44,443)
Housing Development Agency	257,661	101,473	190,510		34,322
Local Development Authority	3,417	2,700	567		(150)
Child Care Facilities	122	4	5		(113)
State School Bond Authority	27,545	27,027	1,138		620
Total loan programs	353,011	145,225	198,022		(9,764)
Lottery program	783,199	787,309	23		4,133
Other programs:					
Northeast	6,333	489	5,749		(95)
East Tennessee	6,736	416	6,199		(121)
Upper Cumberland	4,278	350	3,861		(67)
Southeast	3,324	390	2,865		(69)
Mid-Cumberland	8,900	707	8,143		(50)
South Central	3,236	273	3,002		39
Northwest	4,444	120	4,311		(13)
Southwest	6,128	163	5,971		6
Davidson County	5,127		5,029		(98)
Knox County	2,843		2,787		(56)
Shelby County	7,033	541	6,486		(6)
Hamilton County	2,271		2,237		(34)
Veterans' Homes Board	13,801	13,996	62	558	815
Certified Cotton Growers'	10,048	4,050	1,704		(4,294)
Total other programs	84,502	21,495	58,406	558	(4,043)
Total	\$ 4,384,577	\$ 1,939,548	\$ 1,295,383	\$ 67,184	\$ (1,082,462)

General Revenues				Contributions to Permanent Funds	Change In Net Assets	Net Assets July 1	Net Assets June 30
Payments from Primary Government	Unrestricted Grants and Contributions	Unrestricted Investment Earnings	Miscellaneous				
\$ 660,004	\$ 23,674	\$ 12,100	\$ 3,809	\$ 23,491	\$ 77,339	\$ 1,586,084	\$ 1,663,423
442,240	2,032	8,083		19,561	44,867	1,668,483	1,713,350
1,102,244	25,706	20,183	3,809	43,052	122,206	3,254,567	3,376,773
43,339		127			(1,104)	6,109	5,005
25					34,449	398,075	432,524
					(125)	11,148	11,023
					(113)	284	171
					620	6,180	6,800
43,364		127			33,727	421,796	455,523
		714			4,847	2,314	7,161
		8			(87)	424	337
		25			(96)	1,520	1,424
34		6			(27)	322	295
22		17			(30)	845	815
		7			(43)	146	103
10		6			55	403	458
		11			(2)	343	341
		12			18	335	353
		6			(92)	263	171
		5			(51)	214	163
		14			8	1,205	1,213
		6			(28)	333	305
	24				839	7,950	8,789
3,890		44			(360)	(19,583)	(19,943)
3,956	24	167			104	(5,280)	(5,176)
\$ 1,149,564	\$ 25,730	\$ 21,191	\$ 3,809	\$ 43,052	\$ 160,884	\$ 3,673,397	\$ 3,834,281

State of Tennessee  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Fund Type Component Units  
For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	Tennessee Student Assistance Corporation	Northeast	East Tennessee	Upper Cumberland	Southeast	Mid- Cumberland
<b>Revenues</b>						
Interest on investments	\$ 315	\$ 8	\$ 25	\$ 6	\$ 17	\$ 7
Federal	5,487			682	90	386
Departmental services	57,360	6,238	6,605	3,552	3,187	8,462
Other			10	11		2
Total revenues	<u>63,162</u>	<u>6,246</u>	<u>6,640</u>	<u>4,251</u>	<u>3,294</u>	<u>8,857</u>
<b>Expenditures</b>						
Education	64,265					
Health and social services		6,320	6,712	4,267	3,310	8,876
Total expenditures	<u>64,265</u>	<u>6,320</u>	<u>6,712</u>	<u>4,267</u>	<u>3,310</u>	<u>8,876</u>
Excess (deficiency) of revenues over (under) expenditures	(1,103)	(74)	(72)	(16)	(16)	(19)
Fund balances, July 1	<u>6,225</u>	<u>614</u>	<u>1,622</u>	<u>393</u>	<u>902</u>	<u>304</u>
Fund balances, June 30	<u><u>\$ 5,122</u></u>	<u><u>\$ 540</u></u>	<u><u>\$ 1,550</u></u>	<u><u>\$ 377</u></u>	<u><u>\$ 886</u></u>	<u><u>\$ 285</u></u>
Reconciliation to net assets:						
Fund balances per above	\$ 5,122	\$ 540	\$ 1,550	\$ 377	\$ 886	\$ 285
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		4	23	25	13	35
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund.	<u>(117)</u>	<u>(207)</u>	<u>(149)</u>	<u>(107)</u>	<u>(84)</u>	<u>(217)</u>
Net assets on Statement of Net Assets	<u><u>\$ 5,005</u></u>	<u><u>\$ 337</u></u>	<u><u>\$ 1,424</u></u>	<u><u>\$ 295</u></u>	<u><u>\$ 815</u></u>	<u><u>\$ 103</u></u>

South Central	Northwest	Southwest	Davidson County	Knox County	Shelby County	Hamilton County	Total Governmental Fund Type Component Units
\$ 6	\$ 11	\$ 12	\$ 6	\$ 5	\$ 14	\$ 6	\$ 438
3,284	4,431	6,134	5,029	2,787	6,983	2,236	6,689
							116,288
							23
<u>3,290</u>	<u>4,442</u>	<u>6,146</u>	<u>5,035</u>	<u>2,792</u>	<u>7,041</u>	<u>2,242</u>	<u>123,438</u>
							64,265
<u>3,228</u>	<u>4,424</u>	<u>6,134</u>	<u>5,127</u>	<u>2,833</u>	<u>7,006</u>	<u>2,271</u>	<u>60,508</u>
<u>3,228</u>	<u>4,424</u>	<u>6,134</u>	<u>5,127</u>	<u>2,833</u>	<u>7,006</u>	<u>2,271</u>	<u>124,773</u>
62	18	12	(92)	(41)	35	(29)	(1,335)
<u>460</u>	<u>472</u>	<u>514</u>	<u>263</u>	<u>273</u>	<u>1,334</u>	<u>386</u>	<u>13,762</u>
<u>\$ 522</u>	<u>\$ 490</u>	<u>\$ 526</u>	<u>\$ 171</u>	<u>\$ 232</u>	<u>\$ 1,369</u>	<u>\$ 357</u>	<u>\$ 12,427</u>
\$ 522	\$ 490	\$ 526	\$ 171	\$ 232	\$ 1,369	\$ 357	\$ 12,427
4	9	4		1	26	4	148
<u>(68)</u>	<u>(158)</u>	<u>(177)</u>		<u>(70)</u>	<u>(182)</u>	<u>(56)</u>	<u>(1,592)</u>
<u>\$ 458</u>	<u>\$ 341</u>	<u>\$ 353</u>	<u>\$ 171</u>	<u>\$ 163</u>	<u>\$ 1,213</u>	<u>\$ 305</u>	<u>\$ 10,983</u>



State of Tennessee  
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Fund Type Component Units  
For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee
<b>Operating revenue:</b>				
Charges for services	\$ 101,473	\$ 786,987	\$ 728,446	\$ 798,743
Investment income	39,007		3,065	4,139
Other		322	46,041	15,197
Total operating revenues	140,480	787,309	777,552	818,079
<b>Operating expenses</b>				
Personal services	9,778	11,854	1,067,121	1,008,205
Contractual services	1,707	75,664		
Mortgage service fees	5,074			
Materials and supplies	460		425,803	310,523
Rentals and insurance	996	1,376		
Interest	81,294			
Depreciation and amortization	708	769	68,850	71,643
Lottery prizes		444,243		
Nursing home services				
Scholarships and fellowships			131,659	21,833
Other	1,937	14,997		
Total operating expenses	101,954	548,903	1,693,433	1,412,204
Operating income (loss)	38,526	238,406	(915,881)	(594,125)
<b>Nonoperating revenues (expenses)</b>				
Grant income	151,630		237,059	68,010
Grant expense	(155,707)			
Interest expense			(12,629)	(17,565)
Interest income		714	31,796	90,593
Payments from primary government			658,804	442,240
Grants and contributions				4,053
Gifts			30,189	18,891
Payments to primary government		(234,296)		
Other		23	(12,464)	(7,831)
Total nonoperating revenues (expenses)	(4,077)	(233,559)	932,755	598,391
Income (loss) before capital grants and contributions	34,449	4,847	16,874	4,266
Capital payments from primary government			31,145	15,137
Capital grants and gifts			8,693	12,556
Additions to permanent endowments			21,912	19,561
Other			(1,285)	(6,653)
Change in net assets	34,449	4,847	77,339	44,867
Net assets, July 1	398,075	2,314	1,586,084	1,668,483
Net assets, June 30	\$ 432,524	\$ 7,161	\$ 1,663,423	\$ 1,713,350

Local Development Authority	Veterans' Homes Board	Child Care Facilities	State School Bond Authority	Certified Cotton Growers'	Total Proprietary Fund Type Component Units
\$ 2,700 567	\$ 13,987 9	\$ 4 5	\$ 27,027 1,138	\$ 4,050	\$ 2,463,417 47,921 61,569
3,267	13,996	9	28,165	4,050	2,572,907
192		100	548	8,717	2,097,058 86,828 5,074 736,787 2,373 109,691 142,761 444,243 13,084 153,492 18,499
2,542 26	470 13,084	1 1	25,855 295		
657		18	847	43	
3,417	13,554	120	27,545	8,760	3,809,890
(150)	442	(111)	620	(4,710)	(1,236,983)
25	(208) 63	(2)		(1,288) 44 3,890 1,704	456,699 (155,709) (31,690) 123,210 1,104,959 5,757 49,104 (234,296) (20,312)
	24 (40)				
25	(161)	(2)		4,350	1,297,722
(125)	281	(113)	620	(360)	60,739
	558				46,282 21,807 41,473 (7,938)
(125)	839	(113)	620	(360)	162,363
11,148	7,950	284	6,180	(19,583)	3,660,935
\$ 11,023	\$ 8,789	\$ 171	\$ 6,800	\$ (19,943)	\$ 3,823,298

State of Tennessee  
Statement of Fiduciary Net Assets  
Component Units  
Tennessee Student Assistance Corporation  
Federal Family Education Loan Trust  
June 30, 2005

(Expressed in Thousands)

**Assets**

Cash and cash equivalents	\$ 58,210
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Receivables:

Loans	20,125
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Total receivables	20,125
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Total assets	78,335
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**Liabilities**

Accounts payable and accruals	536
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Total liabilities	536
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**Net assets**

Held in trust for student loans	\$ 77,799
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State of Tennessee  
Statement of Changes in Fiduciary Net Assets  
Component Units  
Tennessee Student Assistance Corporation  
Federal Family Education Loan Trust  
For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

**Additions**

Federal revenue	\$ 19,697
Interest income	1,231
Contribution from primary government	2,068
Other	55
	<hr/>
Total additions	23,051
	<hr/>

**Deductions**

Collection costs	15,054
Administrative expenses	8,956
	<hr/>
Total deductions	24,010
	<hr/>

Change in net assets held in trust	(959)
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Net assets, July 1	78,758
	<hr/>

Net assets, June 30	\$ 77,799
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## **SUPPLEMENTARY SCHEDULES**

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State of Tennessee  
Debt Service Requirements to Maturity  
General Obligation Bonds  
June 30, 2005

Schedule 1

(Expressed in Thousands)

For the Year Ended June 30	General Long-Term Debt (Note 1)			State Loan Program Fund Debt (Note 2)			Facilities Revolving Fund Debt (Note 3)		
	Principal	Interest	Total Require- ments	Principal	Interest	Total Require- ments	Principal	Interest	Total Require- ments
2006	\$ 84,893	\$ 41,738	\$ 126,631	\$ 1,674	\$ 222	\$ 1,896	\$ 13,769	\$ 5,737	\$ 19,506
2007	76,154	37,591	113,745	864	140	1,004	12,353	5,062	17,415
2008	71,091	33,997	105,088	899	101	1,000	11,556	4,476	16,032
2009	70,218	30,825	101,043	929	60	989	11,644	3,953	15,597
2010	67,661	27,528	95,189	959	27	986	11,367	3,420	14,787
2011	67,922	23,899	91,821				10,921	2,817	13,738
2012	64,158	20,733	84,891				10,875	2,309	13,184
2013	63,974	17,518	81,492				11,084	1,770	12,854
2014	58,243	14,587	72,830				10,554	1,264	11,818
2015	53,818	11,717	65,535				6,979	770	7,749
2016	49,752	9,168	58,920				5,812	552	6,364
2017	45,552	7,025	52,577				4,807	317	5,124
2018	37,416	6,004	43,420				3,751	280	4,031
2019	29,345	4,832	34,177				2,381	203	2,584
2020	25,807	3,627	29,434				1,964	115	2,079
2021	18,829	2,989	21,818				1,139	94	1,233
2022	18,875	2,161	21,036				1,129	49	1,178
2023	11,468	1,359	12,827				331	8	339
2024	11,223	1,088	12,311				318	5	323
2025	3,140	798	3,938						
2026	3,295	646	3,941						
2027	3,245	492	3,737						
2028	3,400	336	3,736						
2029	3,565	172	3,737						
TOTALS	\$ 943,044	\$ 300,830	\$ 1,243,874	\$ 5,325	\$ 550	\$ 5,875	\$ 132,734	\$ 33,201	\$ 165,935

Note 1: General obligation bonds principal is more than that presented in the accompanying financial statements by \$25.932 million, which is a deduction from bonds payable for the deferred amount on refunding.

Note 2: Tennessee State Loan Program principal is more than that presented in the accompanying financial statements by \$93 thousand, which is a deduction from bonds payable for the deferred amount on refunding.

Note 3: Facilities Revolving Fund principal is more than that presented in the accompanying financial statements by \$5.017 million, which is a deduction from bonds payable for the deferred amount on refunding.

State of Tennessee  
Schedule of Outstanding Debt  
All Fund Types  
For the Last Five Fiscal Years

Schedule 2

(Expressed in Thousands)

	June 30				
	2001	2002	2003	2004	2005
Enterprise Funds:					
State Loan Program General Obligation Bonds	\$ 17,213	\$ 13,924	\$ 11,070	\$ 8,071	\$ 5,232
Internal Service Funds:					
General Obligation Commercial Paper	9,485	4,131	7,936	12,684	51,650
Facilities Revolving Fund General Obligation Bonds	150,747	160,181	147,197	140,875	127,717
	<u>160,232</u>	<u>164,312</u>	<u>155,133</u>	<u>153,559</u>	<u>179,367</u>
General Long-Term Debt:					
General Obligation Bonds	898,709	974,700	900,334	1,000,151	917,112
General Obligation Commercial Paper	240,515	106,569	193,864	70,091	116,925
	<u>1,139,224</u>	<u>1,081,269</u>	<u>1,094,198</u>	<u>1,070,242</u>	<u>1,034,037</u>
Totals for Primary Government	<u>\$ 1,316,669</u>	<u>\$ 1,259,505</u>	<u>\$ 1,260,401</u>	<u>\$ 1,231,872</u>	<u>\$ 1,218,636</u>

State of Tennessee  
Schedule of General Obligation  
Commercial Paper Outstanding- By Purpose  
All Fund Types  
June 30, 2005

Schedule 3

(Expressed in Thousands)

General Obligation Commercial Paper - Tax Exempt	\$ 160,575
Purpose: To finance the construction, improvements, repairs, and replacements of buildings and facilities and the acquisition of land, equipment and other property of the state.	
General Obligation Commercial Paper - Taxable	
Purpose: To finance improvements to Mental Health and Mental Retardation Facilities and grants to local governments.	<u>8,000</u>
Total Outstanding	<u>\$ 168,575</u>

State of Tennessee  
Schedule of Outstanding Debt  
Component Units  
For the Last Five Fiscal Years

Schedule 4

(Expressed in Thousands)

	June 30				
	2001	2002	2003	2004	2005
Component units:					
Mid-Cumberland Community Services Agency notes				\$ 23	\$ 19
Certified Cotton Growers' notes	\$ 23,704	\$ 32,306	\$ 29,386	24,853	21,540
Local Development Authority notes	45,025	51,513	48,950	48,134	45,970
Local Development Authority bonds	54,559	50,664	43,644	32,774	29,966
Tennessee Housing Development Agency bonds	1,850,495	1,820,394	1,769,506	1,489,299	1,433,430
Tennessee Housing Development Agency notes	84,865	67,909	51,070	273,240	311,900
Veterans' Homes Board loan				4,053	4,197
Veterans' Homes Board bonds	4,730	4,567	4,400		
Tennessee State School Bond Authority bonds	359,225	471,136	449,809	527,385	520,087
Tennessee State School Bond Authority commercial paper	60,277	13,757	46,747	32,156	74,242
University of Tennessee notes	31	10		75	66
University of Tennessee bonds				147,561	148,995
Board of Regents notes	798	1,284	688	746	350
Board of Regents bonds	872	551	236	80	
	<u>\$ 2,484,581</u>	<u>\$ 2,514,091</u>	<u>\$ 2,444,436</u>	<u>\$ 2,580,379</u>	<u>\$ 2,590,762</u>



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# **STATISTICAL AND ECONOMIC DATA**

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**The Statistical Data are presented to give report users a better historical perspective and assist in assessing current financial status and trends of the governmental unit. Economic Data are presented to allow a broader understanding of the economic and social environment in which State government operates.**

Table I

State of Tennessee  
Revenues by Source and Transfers In  
All Governmental Fund Types  
For the Last Ten Years

(Expressed in Thousands)

Sources	For the Year Ended June 30									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Taxes	\$ 6,237,102	\$ 6,604,037	\$ 6,967,790	\$ 7,212,642	\$ 7,778,475	\$ 7,900,810	\$ 7,718,442	\$ 8,695,598	\$ 9,357,356	\$ 9,903,848
Licenses, fines, fees and permits	345,148	353,516	370,419	392,261	423,614	435,886	460,920	480,629	505,538	540,001
Interest on investments	24,183	19,296	35,977	47,683	53,819	92,127	36,618	28,429	34,102	46,222
Federal	4,335,071	4,636,905	4,831,199	5,124,273	5,537,353	6,184,126	6,694,648	7,646,384	8,417,534	8,988,687
Departmental services	1,258,672	1,034,678	1,129,859	1,282,634	1,512,483	1,748,165	1,607,251	1,716,159	2,071,252	2,360,891
Other	21,113	22,624	47,537	40,155	352,183	356,029	444,450	384,536	488,769	502,074
Transfers in	485,767	580,618	545,432	565,885	472,275	567,901	766,097	679,743	661,064	812,886
Total revenues and transfers in- all governmental fund types	<u>\$ 12,707,056</u>	<u>\$ 13,251,674</u>	<u>\$ 13,928,213</u>	<u>\$ 14,665,533</u>	<u>\$ 16,130,202</u>	<u>\$ 17,285,044</u>	<u>\$ 17,728,426</u>	<u>\$ 19,631,478</u>	<u>\$ 21,535,615</u>	<u>\$ 23,154,609</u>

Table II

State of Tennessee  
Expenditures by Function and Transfers Out  
All Governmental Fund Types  
For the Last Ten Years

(Expressed in Thousands)

Function	For the Year Ended June 30									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
General government	\$ 282,149	\$ 287,635	\$ 289,194	\$ 345,746	\$ 330,255	\$ 349,278	\$ 358,523	\$ 392,747	\$ 400,069	\$ 425,243
Education	2,368,196	2,535,513	2,731,599	2,859,303	2,947,577	3,059,538	4,218,637	4,432,071	4,630,294	5,100,147
Health and social services	5,790,343	5,829,651	6,094,595	6,596,034	7,446,923	8,641,777	9,250,026	10,342,682	11,308,871	12,518,297
Law, justice and public safety	729,663	694,610	742,714	825,010	872,353	897,805	914,307	970,042	1,042,510	1,109,819
Recreation and resources development	365,586	385,673	372,119	382,614	429,389	419,423	446,137	442,915	479,243	491,681
Regulation of business and professions	36,919	41,598	41,402	46,346	49,325	57,988	65,040	71,109	88,580	119,620
Transportation	1,023,381	1,079,683	1,145,536	1,164,776	1,271,170	1,269,773	1,311,654	1,357,941	1,318,913	1,411,906
State shared taxes paid to local governments	550,633	572,821	607,070	629,904	653,989	681,151	686,515	641,271	647,654	683,925
Debt service	94,575	92,286	100,556	111,530	123,783	122,221	123,707	126,722	132,144	135,088
Capital outlay	98,335	79,769	121,651	105,889	70,866	55,679	145,590	132,949	128,167	119,730
Transfers out	1,518,869	1,651,160	1,563,095	1,693,625	1,619,425	1,748,989	787,813	708,252	691,729	866,136
Total expenditures and transfers out - all governmental fund types	<u>\$ 12,858,649</u>	<u>\$ 13,250,399</u>	<u>\$ 13,809,531</u>	<u>\$ 14,760,777</u>	<u>\$ 15,815,055</u>	<u>\$ 17,303,622</u>	<u>\$ 18,307,949</u>	<u>\$ 19,618,701</u>	<u>\$ 20,868,174</u>	<u>\$ 22,981,592</u>

Note: The Governmental Fund Types include General, Education, Highway, Special Revenue, Debt Service, Capital Projects and Permanent Funds.

Table III

State of Tennessee  
Tax Revenues by Source  
All Governmental Fund Types  
For the Last Ten Years

(Expressed in Thousands)

Tax Revenue	For the Year Ended June 30									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Sales and use	\$ 3,681,461	\$ 3,904,964	\$ 4,099,928	\$ 4,346,209	\$ 4,600,658	\$ 4,643,337	\$ 4,647,768	\$ 5,459,444	\$ 5,810,784	\$ 6,091,547
Services	424									
Gasoline	551,347	558,629	579,162	584,249	576,640	569,422	575,349	600,138	599,327	608,051
Motor fuel	125,177	125,397	131,632	140,887	152,771	173,418	151,034	155,403	167,731	173,682
Petroleum products	39,209	39,132	40,289	41,614	60,432	61,487	61,624	60,858	62,378	63,634
Income	114,750	128,273	161,304	160,352	179,904	199,397	171,073	102,939	139,992	155,919
Privilege	130,135	139,019	150,564	166,074	177,244	181,175	205,029	237,772	272,416	284,276
Gross receipts	175,878	188,202	188,808	197,542	213,147	229,210	230,582	216,536	219,129	235,884
Alcoholic beverage	67,595	69,869	71,522	74,736	77,221	79,854	81,616	90,237	93,866	97,514
Franchise	280,056	399,482	313,342	318,666	519,879	467,900	428,590	475,985	510,650	528,214
Excise	537,597	493,785	592,848	572,567	563,163	634,902	537,711	595,715	687,153	843,784
Inheritance and estate	60,356	58,970	121,847	83,198	94,704	89,676	104,481	83,148	90,718	82,890
Tobacco	85,371	85,449	86,093	84,492	82,540	82,814	85,596	114,717	119,689	120,512
Insurance companies premiums	204,557	224,099	243,355	242,849	271,194	280,561	265,473	302,388	327,031	337,481
Medicaid provider	110,853	115,755	118,885	117,366	116,190	115,909	100,976	101,700	100,229	99,677
Other	72,336	73,012	68,211	81,841	92,788	91,748	71,540	98,618	156,263	180,783
Total tax revenues- all governmental fund types	<u>\$ 6,237,102</u>	<u>\$ 6,604,037</u>	<u>\$ 6,967,790</u>	<u>\$ 7,212,642</u>	<u>\$ 7,778,475</u>	<u>\$ 7,900,810</u>	<u>\$ 7,718,442</u>	<u>\$ 8,695,598</u>	<u>\$ 9,357,356</u>	<u>\$ 9,903,848</u>

STATE OF TENNESSEE  
DESCRIPTION OF TAX SOURCES  
ALL GOVERNMENTAL FUND TYPES  
JUNE 30, 2005

Presented below is a brief description of the state's principal tax sources as shown in the preceding table.

**SALES AND USE TAX** – The retail sales and use tax, imposed in 1947, is the state's leading source of revenue. The current rate of 7.0% on most non-food items was made effective July 15, 2002. The rate on food remains at 6%. There is an additional tax of 2.75% on the sale or use of any single article on the amount in excess of \$1,600 up to \$3,200. The tax is applied to the sale, use, consumption, distribution, lease or rental of tangible personal property and certain services and, effective July 1, 1984, was extended to include most admission and amusement charges. Political subdivisions, governmental agencies, charitable and religious groups, non-profit organizations and certain items of tangible personal property, including prescription drugs, are exempt.

**SERVICES TAX** – The services tax was enacted as of July 1, 1992. Vendors are taxed at a rate of 6.75% for services provided such as repairs to equipment, installation of equipment and certain other specific services. This act repeals the state and local use tax on services and amusements as well as exempting certain services from the tax altogether. The services tax expired December 31, 1993.

**GASOLINE TAX** – The gasoline tax was first enacted in 1923. The tax was increased to 20 cents per gallon on July 1, 1989, and is charged on each gallon of gasoline or distillate refined, manufactured, sold, stored or distributed in Tennessee, as well as gasoline or distillate imported into the state. Refunds are granted on gasoline used for agricultural purposes, while political subdivisions and governmental agencies are exempt.

**MOTOR FUEL TAX** – The motor fuel tax was enacted in 1941. The tax was imposed on the sale of diesel fuel and as of April 1, 1990 the current rate is 17 cents per gallon. Effective July 1, 1984, a tax was levied on motor vehicles powered by liquified gas at rates ranging from \$70 for passenger cars to \$114 for the largest trucks. Owners of commercial vehicles may be charged additional tax based on number of miles driven in Tennessee. Effective April 1, 1989, out of state residents are taxed at a rate of 14 cents per gallon of liquified gas.

**SPECIAL PETROLEUM PRODUCTS TAX** – The special Petroleum Products Tax (formerly Gasoline Inspection Fee) was first enacted in 1899 for the purpose of assuring that gasoline and oil sold in the state met certain minimum standards. The rate was 1 cent per gallon in 1967 and went to 1.4 cents per gallon on May 1, 1990 when the 0.4 cent per gallon environmental assurance fee was added. Both are imposed on volatile substances having certain gravity levels, which are produced from petroleum, natural gas, oil shales, or coal.

**INCOME TAX** – Although Tennessee does not levy a general personal income tax, income derived from dividends and interest on stocks and bonds has been subject to tax since 1929. The tax rate is 6% on dividends from stocks, and interest on bonds, subject to an exemption of \$1,250 for individuals and \$2,500 for joint tax returns. Blind persons, pension trusts, profit-sharing trusts and qualifying low income persons 65 years of age or older are exempt from the tax.

**PRIVILEGE TAX** – The first state privilege tax in Tennessee was levied in 1799. During the ensuing 125 years, 132 business activities were made subject to the tax. Virtually all of these business-related privilege taxes were abolished in 1971 and re-enacted as part of other taxes. Currently, the privilege tax base is provided from litigation taxes, realty transfer, mortgage taxes, marriage license fees, professional taxes, fire taxes, auto rental taxes, bail bond fees, and auto oil tax.

**GROSS RECEIPTS TAXES** – There have been numerous additions, deletions and alterations in the group of taxable privileges comprising the gross receipts tax since it was first imposed in 1937. Currently, the tax covers bottlers, mixing bars, utilities, and firearms. TVA payments "in lieu of taxes" based on power sales in Tennessee make up over 85% of collections.

**ALCOHOLIC BEVERAGE TAX** – The alcoholic beverage tax was enacted in 1939, authorizing the sale of alcoholic beverages in counties and municipalities in Tennessee if approved by local referendum. It provided for a system of state licensing fees and established a gallonage tax on wines and liquors sold in the state. Currently, the tax is levied at the rate of \$4.40 per gallon on distilled spirits and \$1.21 per gallon on wines, with additional fees for regulatory purposes and for the issuance of licenses and permits.

**FRANCHISE TAX** – The franchise tax, first collected in 1937, imposes an annual tax for the privilege of engaging in business in the form of a corporation, Limited Liability Corporation and Limited Liability Partnership in the state. The tax is levied at the rate of .25% of the greater of net worth or real and tangible property on domestic and foreign corporations operating in Tennessee.

**EXCISE TAX** – The excise tax originated in 1923 and has always been a major revenue source. The tax is presently applied at the rate of 6.5% on annual net earnings from business corporations, co-operatives conducted for profit, joint stock associations, business trusts, state banks, national banks and savings and loan associations.

**INHERITANCE, ESTATE AND GIFT TAXES** – The inheritance tax was first enacted in 1891. Originally, the tax was applicable only to property going to collateral heirs, but was extended to direct heirs in 1909. The tax applies to all property, real and personal, with certain exemptions. The law was changed again in 1919 and provided a higher exemption for direct heirs than for other heirs. It also included a tax on transfers by gift. A state estate pickup tax, taking advantage of federal law of 1926, was enacted in 1929.

**TOBACCO TAXES** – Tobacco taxes were first levied in 1925. The present tax equates to 20 cents per pack of 20 cigarettes and 6.6% of the wholesale cost for all other tobacco products.

**INSURANCE COMPANY PREMIUM TAX** – This tax, first enacted in 1945, is applied to gross premiums paid by or for policyholders residing in this state or on property located in the state. The rate is 1.75% for domestic life insurance companies, 2% for foreign life insurance companies, 2.5% for property and casualty insurance companies and 4% for workers compensation premiums.

**MEDICAID PROVIDER TAX** – The Hospital Medicaid Provider Tax has been in effect since July 1, 1989. The tax is directly proportional to the hospital's Medicaid utilization rate, low income utilization rate, or large volume of Medicaid days per year. The Nursing Home Medicaid Provider Tax, which has been in effect since July 1, 1990, is based on the number of licensed beds physically located in the state.

State of Tennessee  
Ratio of Net General Long-Term Debt to  
Assessed Value and Net Debt Per Capita  
For the Last Ten Years

Table IV

(Expressed in Thousands except Ratio and Per Capita Data)

For the Year Ended June 30	Population	Assessed Value	Total (Note)	<u>General Long-Term Debt</u>		<u>Net General Long-Term Debt</u>	
				Less Debt Service Fund	Net	Ratio to Assessed Value	Per Capita
1996	5,327	\$ 56,072,000	\$ 712,020	\$ 961	\$ 711,059	1.27%	\$ 133.48
1997	5,398	61,648,000	881,983	4,531	877,452	1.42%	162.55
1998	5,470	71,292,000	919,670	4,356	915,314	1.28%	167.33
1999	5,524	75,561,000	1,073,097	1,335	1,071,762	1.42%	194.02
2000	5,750	78,568,000	1,068,019	2,750	1,065,269	1.36%	185.26
2001	5,776	89,194,000	1,139,224	3,407	1,135,817	1.27%	196.64
2002	5,833	92,726,000	1,081,269	4,527	1,076,742	1.16%	184.59
2003	5,878	94,642,000	1,094,198	33,733	1,060,465	1.12%	180.41
2004	5,916	97,366,000 (Est)	1,070,242	3,567	1,066,675	1.10%	180.30
2005	5,962 (Est)	99,773,140 (Est)	1,034,037	6,370	1,027,667	1.03%	172.37

Note: Total General Long-term debt does not include State Loan Program, Facilities Revolving Fund, and Motor Vehicle Management Fund General Obligation Bonds, Notes and Commercial Paper as follows:

<u>Year</u>	<u>Bonds, Notes and Commercial Paper</u>
1996	\$ 210,684
1997	208,006
1998	212,239
1999	190,604
2000	184,549
2001	177,445
2002	178,236
2003	166,203
2004	161,630
2005	184,600

These obligations are reported as debt of those enterprises in the accompanying financial statements.

Table V

State of Tennessee  
Computation of Legal Debt Margin  
June 30, 2005

(Expressed in Thousands)

Legal debt service limit (2005 pledged revenues of \$892,168/150%)	\$ 594,779
Less - 2005 debt service required on all general long-term debt, including State Loan Program and Facilities Revolving Fund general obligation bonds	<u>155,215</u>
Legal debt service margin	<u><u>\$ 439,564</u></u>

	<u>Collections for Fiscal Year 2005</u>		<u>Pledged Amount</u>
	<u>Portion Pledged</u>	<u>All Governmental Fund Types</u>	
Calculation of 2005 pledged revenues as above:			
Gasoline tax	29.3 %	\$ 608,050	\$ 178,159
Petroleum products fee	All	63,634	63,634
Motor vehicle registration fee	One-half	244,321	122,161
Franchise tax	All	<u>528,214</u>	<u>528,214</u>
Totals		<u><u>\$ 1,444,219</u></u>	<u><u>\$ 892,168</u></u>

Note: Pledged revenues for the last five years are shown below:

<u>Fiscal Year</u>	<u>Pledged Revenues</u>	<u>Percent Increase (Decrease)</u>
2001	\$ 802,023	(7.8)
2002	768,696	(4.2)
2003	825,316	7.4
2004	867,914	5.2
2005	892,168	2.8

Table VI

State of Tennessee  
Ratio of Annual Debt Service for General  
Long-Term Debt to Total Expenditures  
All Governmental Fund Types  
For the Last Ten Fiscal Years

(Expressed in Thousands except for Ratio Data)

For the Year Ended June 30	Debt Service	Total Expenditures	Ratio
1996	\$ 94,575	\$ 10,789,147	0.88
1997	92,286	11,026,418	0.84
1998	100,556	11,639,366	0.86
1999	111,530	12,437,248	0.90
2000	123,783	13,541,641	0.91
2001	122,221	15,554,633	0.79
2002	123,707	17,520,136	0.71
2003	126,722	18,910,449	0.67
2004	128,244	20,176,445	0.64
2005	131,188	22,115,456	0.59

Table VII

State of Tennessee  
Schedule of Revenue Bond Coverage  
Component Units  
Tennessee Housing Development Agency Fund  
For the Last Ten Fiscal Years

(Expressed in Thousands except for Coverage)

For the Year Ended June 30	Dedicated Revenues	Related Expenses	Net Available For Debt Service	Debt Service Requirements	Coverage
1996	\$ 141,056	\$ 4,779	\$ 136,277	\$ 113,969	1.20
1997	197,309	5,041	192,268	162,327	1.18
1998	332,821	4,784	328,037	294,861	1.11
1999	308,454	4,843	303,611	271,574	1.12
2000	248,647	5,836	242,811	208,377	1.17
2001	257,258	6,070	251,188	218,726	1.15
2002	180,894	7,360	173,534	138,870	1.25
2003	222,312	7,737	214,575	181,901	1.18
2004	179,774	10,904	168,870	115,780	1.46
2005	157,838	6,538	151,300	104,743	1.44

State of Tennessee  
Schedule of Revenue Bond Coverage  
Component Units  
College and University Funds  
For the Last Ten Fiscal Years

(Expressed in Thousands except for Coverage)

For the Year Ended June 30	Fees and Charges	Tennessee State School Bond Authority	Other Than Authority	Total	Coverage
1996	\$ 865,204	\$ 29,810	\$ 352	\$ 30,162	28.7
1997	908,072	35,993	275	36,268	25.0
1998	908,650	38,182	272	38,454	23.6
1999	1,016,422	35,837	204	36,041	28.2
2000	835,841	29,760	784	30,544	27.4
2001	859,417	33,454	498	33,952	25.3
2002	936,385	45,616	488	46,104	20.3
2003	957,897	45,761	497	46,258	20.7
2004	945,682	47,397	503	47,900	19.7
2005	994,469	43,889	378	44,267	22.5

Table VIII

State of Tennessee  
Schedule of Fees/Charges, Legislative Appropriations and Debt Service  
Component Units  
College and University Funds  
For the Last Ten Years

(Expressed in Thousands)

University of Tennessee

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1996	\$ 563,302	\$ 369,853	\$ 21	\$ 21,749
1997	587,138	374,249	21	26,891
1998	559,661	367,938	21	28,657
1999	622,109	373,207	21	24,431
2000	410,086	375,872	21	16,872
2001	401,918	408,671	21	18,628
2002	438,956	406,146	21	24,804
2003	413,632	409,612		24,508
2004	417,191	406,033	75	25,317
2005	448,955	430,412	66	23,896

Austin Peay State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1996	\$ 18,235	\$ 25,209	\$ 48	\$ 535
1997	19,178	25,733	48	641
1998	20,420	25,559	48	672
1999	23,188	27,444	48	651
2000	24,288	28,001	48	649
2001	26,555	28,051	48	649
2002	33,157	30,484	48	1,516
2003	36,201	31,100	48	1,515
2004	33,058	30,712	48	2,242
2005	34,012	32,216	48	2,104

East Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1996	\$ 49,502	\$ 67,549		\$ 1,636
1997	53,232	68,469		1,597
1998	57,826	67,202		1,588
1999	64,652	70,814		1,743
2000	64,386	72,837	\$ 258	1,954
2001	59,516	75,937	261	1,916
2002	65,342	77,965	261	2,608
2003	68,805	79,735	319	2,609
2004	77,570	79,247	315	2,824
2005	77,284	83,221	312	2,221

University of Memphis

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1996	\$ 72,587	\$ 90,400		\$ 2,451
1997	75,167	91,212		2,889
1998	80,625	89,924		2,991
1999	93,593	93,576		3,054
2000	102,186	94,289		2,353
2001	114,031	97,499		3,777
2002	120,196	99,786		6,334
2003	127,638	102,139		6,291
2004	128,880	100,602		5,609
2005	134,065	106,393		4,993

Middle Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1996	\$ 54,128	\$ 61,920		\$ 1,166
1997	57,341	63,529		1,668
1998	62,814	64,469		1,872
1999	70,530	70,576		3,357
2000	78,317	73,273		4,886
2001	86,328	76,159		5,472
2002	98,031	77,990		6,537
2003	93,953	83,208		6,540
2004	98,844	81,057		6,937
2005	107,719	82,305		6,455

Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1996	\$ 31,231	\$ 31,477	\$ 135	\$ 1,100
1997	34,352	32,227	135	1,157
1998	39,141	32,052	135	1,257
1999	46,423	35,597	66	1,470
2000	52,156	36,337	66	2,056
2001	54,979	34,843	66	2,193
2002	45,119	35,067		3,137
2003	57,939	39,040		3,136
2004	53,840	40,621		3,001
2005	44,167	42,305		2,893

Tennessee Technological University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1996	\$ 26,110	\$ 38,452		\$ 1,173
1997	27,208	38,164		1,150
1998	28,831	37,699		1,145
1999	31,616	39,259		1,075
2000	33,791	38,938		844
2001	37,065	43,568		639
2002	41,311	40,392		415
2003	53,518	45,813		897
2004	47,194	40,165		1,168
2005	44,801	47,869		1,042

Chattanooga State Technical Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1996	\$ 8,701	\$ 18,284	\$ 74	
1997	9,032	18,514	71	
1998	9,818	18,589	68	
1999	10,453	19,602	69	
2000	11,074	20,234	72	
2001	11,650	20,684	69	\$ 34
2002	12,380	21,233	70	73
2003	13,428	21,108	60	73
2004	11,937	20,979	65	73
2005	12,306	21,977		69

(continued on next page)



State of Tennessee  
Schedule of Fees/Charges, Legislative Appropriations and Debt Service (continued)  
Component Units  
College and University Funds  
For the Last Ten Years

(Expressed in Thousands)

Columbia State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1996	\$ 4,605	\$ 8,361		
1997	4,966	8,670		
1998	5,753	9,069		
1999	6,615	10,143		
2000	6,836	10,675		
2001	7,294	11,016		
2002	13,136	11,437		
2003	14,921	11,540		
2004	10,799	11,344		\$ 17
2005	12,133	12,839		17

Nashville State Technical Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1996	\$ 4,300	\$ 9,716		
1997	4,777	9,677		
1998	6,260	9,864		
1999	6,816	11,092		
2000	7,474	11,655		
2001	8,322	12,168		
2002	8,254	12,525		\$ 13
2003	13,519	13,099		13
2004	12,202	12,730		13
2005	13,955	13,449		13

Roane State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1996	\$ 5,349	\$ 13,509		
1997	5,878	13,649		
1998	6,268	13,441		
1999	6,940	14,254		
2000	7,565	14,879	\$ 33	
2001	7,697	15,524	33	
2002	8,589	15,771		
2003	9,532	15,779		
2004	7,473	15,518		
2005	7,890	16,470		

Southwest Tennessee Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1996	\$ 9,250	\$ 17,988		
1997	9,712	18,174		
1998	9,837	17,898		
1999	9,991	18,527		\$ 56
2000	10,838	18,464		146
2001	18,325	34,451		146
2002	19,022	35,175		179
2003	21,839	34,827		179
2004	16,472	34,191		179
2005	16,749	36,210		169

Volunteer State Community College

<u>Fiscal Year</u>	<u>Total Fees and Charges</u>	<u>Legislative Appropriations</u>	<u>Prior and Subordinate Debt Service Requirements (Non-Authority)</u>	<u>Debt Service Requirements (Authority Bonds)</u>
1996	\$ 11,309	\$ 11,504		
1997	12,855	12,029		
1998	13,046	13,232		
1999	15,088	14,323		
2000	17,843	14,947		
2001	15,567	15,394		
2002	15,060	15,862		
2003	12,941	15,813		
2004	9,395	15,417		\$ 17
2005	19,115	18,049		17

Walters State Community College

<u>Fiscal Year</u>	<u>Total Fees and Charges</u>	<u>Legislative Appropriations</u>	<u>Prior and Subordinate Debt Service Requirements (Non-Authority)</u>	<u>Debt Service Requirements (Authority Bonds)</u>
1996	\$ 6,595	\$ 12,308		
1997	7,236	12,658		
1998	8,350	13,132		
1999	8,408	14,265		
2000	9,001	14,767	\$ 286	
2001	10,170	15,173		
2002	17,832	15,595	88	
2003	20,031	16,045	70	
2004	20,827	15,821		
2005	21,318	16,780		

State of Tennessee  
Student Fees and Charges  
For Institutions with Tennessee State School Bond Authority Debt  
Component Units  
College and University Funds  
For the Fiscal Year Ended June 30, 2005

Table IX

<u>Institution</u>	Debt Service Fees	In-State Student Tuition	Non-Resident Student Tuition	Average Board Charge	Average Room Charge
University of Tennessee- Knoxville	\$ 148	\$ 4,087	\$ 13,532	\$ 2,288	\$ 2,820
University of Tennessee- Chattanooga	220	3,293	11,504	1,000	2,800
University of Tennessee- Martin	174	3,412	11,480	1,950	2,050
University of Tennessee- Memphis	54	6,467	17,606		4,320
Austin Peay State University	274	3,352	7,932	1,646	3,400
East Tennessee State University	160	3,352	7,932	1,900	2,000
University of Memphis	120	3,748	8,154	1,850	2,520
Middle Tennessee State University	166	3,352	7,932	2,100	2,756
Tennessee State University	130	3,352	7,932	2,460	1,570
Tennessee Technological University	58	3,352	7,932	2,550	2,520
Chattanooga State Technical Community College		1,952	7,798		
Cleveland State Community College		1,952	7,798		
Columbia State Community College		1,952	7,798		
Dyersburg State Community College		1,952	7,798		
Jackson State Community College		1,952	7,798		
Motlow State Community College		1,952	7,798		
Nashville State Technical Community College		1,952	7,798		
Northeast State Community College		1,952	7,798		
Pellissippi State Technical Community College	30	1,952	7,798		
Roane State Community College		1,952	7,798		
Southwest Tennessee Community College		1,952	7,798		
Volunteer State Community College		1,952	7,798		
Walters State Community College		1,952	7,798		

State of Tennessee  
Principal Amount of Debt Outstanding by Institution  
Component Units  
College and University Funds  
June 30, 2005

Table X

<u>Institution</u>	First Program Bonds	Second Program Bonds	Commercial Paper	Non-Authority Debt	Total Debt
University of Tennessee	\$ 12,702	\$ 212,225	\$ 22,316	\$ 66	\$ 247,309
Austin Peay State University	703	28,262	1,523		30,488
East Tennessee State University	95	26,477	4,508	312	31,392
University of Memphis	507	49,078	3,023		52,608
Middle Tennessee State University	204	80,441	20,943		101,588
Tennessee State University	4,613	23,656	2,542		30,811
Tennessee Technological University	57	11,593	666		12,316
Chattanooga State Technical Community College		566	5,353		5,919
Cleveland State Community College			393		393
Columbia State Community College		132			132
Dyersburg State Community College			509		509
Jackson State Community College			755		755
Motlow State Community College			452		452
Nashville State Technical Community College		73			73
Northeast State Community College			1,125		1,125
Pellissippi State Technical Community College			1,495		1,495
Roane State Community College			453		453
Southwest Tennessee Community College		1,560			1,560
Volunteer State Community College		128	553		681
Walters State Community College			452		452
	<u>\$ 18,881</u>	<u>\$ 434,191</u>	<u>\$ 67,061</u>	<u>\$ 378</u>	<u>\$ 520,511</u>

State of Tennessee  
Economic Characteristics\*

Tennessee's Economic Growth

The economic future for Tennessee remains bright. Characteristics of the state which have been identified as important reasons why firms have chosen Tennessee sites include work-force related factors such as worker productivity, right-to-work laws and low unionization, as well as access to markets and pro-business attitude of the state. Other factors include relatively inexpensive energy, plentiful natural resources and sun-belt location.

(Expressed in Millions)

<u>Year</u>	<u>Personal Income</u>	<u>Disposable Personal Income</u>
1995	\$112,794	\$101,914
1996	118,374	106,319
1997	124,699	111,581
1998	133,620	119,491
1999	140,395	125,704
2000	148,834	133,501
2001	154,439	138,817
2002	159,833	145,477
2003	166,867	153,142
2004	175,551 (Est)	162,414 (Est)

Tennessee Employment by Sector

(Expressed in Thousands)

	<u>1994</u>	<u>1999</u>	<u>2004 (Est)</u>	<u>Percentage Change (From 1994 to 2004)</u>
Manufacturing	513.9	494.7	413.6	-19.5%
Construction	101.9	123.1	117.1	14.9%
Mining	5.0	5.1	4.3	-14.0%
Wholesale trade	118.9	131.8	128.5	8.1%
Retail trade	279.5	311.8	315.5	12.9%
Professional & business services	219.4	287.5	289.2	31.8%
Educational & health services	247.2	272.5	319.0	29.0%
Other services	77.9	114.2	103.5	32.9%
Finance, insurance and real estate	119.1	140.4	140.2	17.7%
Transportation, communication and public utilities	116.9	134.6	142.3	21.7%
Federal government	55.3	51.2	50.7	-8.3%
State & local government	315.4	338.9	362.1	14.8%
Information	45.7	52.9	51.0	11.6%
Leisure & Hospitality	206.8	226.6	252.9	22.3%
Total all sectors	<u>2,422.9</u>	<u>2,685.3</u>	<u>2,689.9</u>	11.0%

\* Except as otherwise noted, the source for all economic information presented is An Economic Report to the Governor of the State of Tennessee on the State's Economic Outlook (January 2005) developed by the Center for Business and Economic Research, College of Business Administration, The University of Tennessee, Knoxville. The source for disposable personal income is the U.S. Department of Commerce, Bureau of Economic Analysis.

Tennessee Average Annual Wage by Sector

	1994*	1999*	2004 (Est)	Percentage Change (From 1994 to 2004)
Manufacturing	\$28,524	\$34,860	\$41,235	44.6%
Construction	26,729	33,873	37,777	41.3%
Mining	33,913	44,533	36,413	7.4%
Wholesale trade	N/A	N/A	46,814	N/A
Retail trade	N/A	N/A	24,175	N/A
Trade	18,665	23,299	N/A	N/A
Professional & business services	N/A	N/A	37,559	N/A
Educational & health services	N/A	N/A	37,161	N/A
Other services	N/A	N/A	32,228	N/A
Services	23,219	28,401	N/A	N/A
Finance, insurance and real estate	30,831	40,527	51,318	66.4%
Transportation, communication and public utilities	32,250	37,736	41,803	29.6%
Federal government	41,089	44,261	52,649	28.1%
State & local government	22,302	26,194	30,833	38.3%
Information	N/A	N/A	43,558	N/A
Leisure & Hospitality	N/A	N/A	17,058	N/A
Average all sectors	\$24,635	\$29,926	\$35,260	43.1%

N/A- data not available

Manufacturing

Manufacturing investment in Tennessee totaled \$2.7 billion in 2004, marking the twenty-second consecutive billion dollar year for the state. The combined new plant and expansion projects announced are expected to create 31,020 new job opportunities. The tables which follow indicate the state's manufacturing employment and industrial expansion.

Tennessee Manufacturing Employment

(Expressed in Thousands)

	1994	1999	2004 (Est)	Percentage Change (From 1994 to 2004)
Durables:				
Furniture & fixtures	30.6	27.6	19.2	-37.3%
Fabricated metals	46.8	45.6	40.9	-12.6%
Machinery	34.4	42.8	34.3	-0.3%
Electrical equipment	28.4	29.8	23.2	-18.3%
Transportation equipment	61.4	67.8	61.5	0.2%
Other	82.5	87.6	72.9	-11.6%
Total durables	284.1	301.2	252.0	-11.3%
Nondurables:				
Food	33.2	34.1	35.9	8.1%
Textiles	20.0	16.3	10.7	-46.5%
Apparel	51.2	23.4	10.7	-79.1%
Paper	20.9	21.4	19.4	-7.2%
Printing & publishing	25.0	24.5	19.7	-21.2%
Chemicals	35.6	31.4	28.5	-19.9%
Rubber & plastics	30.3	31.5	28.0	-7.6%
Other	13.7	10.7	8.8	-35.8%
Total nondurables	229.9	193.3	161.7	-29.7%
Totals	514.0	494.5	413.7	-19.5%

\* Information obtained from An Economic Report to the Governor of the State of Tennessee on the State's Economic Outlook (February 2003).

# Industrial Growth in Tennessee

## New Plants and Expansions

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Number:										
New	80	105	80	63	80	66	56	57	35	58
Expansions	864	703	961	1,290	1,041	1,065	825	613	600	702
	944	808	1,041	1,353	1,121	1,131	881	670	635	760
Investment										
(In thousands):										
New	\$1,005,577	\$571,098	\$463,844	\$270,164	\$754,807	\$539,320	\$527,879	\$1,446,033	\$320,600	\$519,396
Expansion	2,254,233	3,232,541	2,400,932	3,035,618	2,960,216	4,413,085	3,508,749	2,272,410	2,007,678	2,219,904
	\$3,259,810	\$3,803,639	\$2,864,776	\$3,305,782	\$3,715,023	\$4,952,405	\$4,036,628	\$3,718,443	\$2,328,278	\$2,739,300
Job opportunities:										
New	4,862	8,588	4,904	3,310	6,410	5,636	3,964	3,915	3,211	6,047
Expansions	12,485	14,321	14,639	19,793	20,256	21,377	11,840	11,528	12,569	24,973
	17,347	22,909	19,543	23,103	26,666	27,013	15,804	15,443	15,780	31,020

## Top Fifty Tennessee Companies

(Ranked by Number of Employees in Tennessee)

Company	Number of Employees	Company	Number of Employees
1. Wal-Mart Associates Inc.	32,000	26. Blue Cross Blue Shield of TN	4,300
2. Federal Express Inc.	30,000	27. UT-Battelle (Research)	4,200
3. Kroger Limited Partnership Inc.	15,500	28. National Health Corp.	4,100
4. Vanderbilt University/Hospital	13,700	29. Goodyear Tire & Rubber	4,100
5. Eastman Chemical Corporation	11,100	30. Centennial Medical Center (HCA)	4,032
6. United Parcel Service Inc.	8,600	31. The GAP Inc.	4,000
7. Saturn Corporation	8,400	32. Food Lion Inc.	3,900
8. Methodist Health Care Memphis	7,900	33. Bi-Lo LP	3,700
9. U.S. Xpress Inc.	7,300	34. Bridgestone/Firestone Inc.	3,700
10. Nissan Motor Mfg. Corp, USA	6,300	35. Union Planters Bank Nat'l Assoc.	3,700
11. Sears Roebuck and Company	6,200	36. M S Carriers Inc.	3,600
12. New Gaylord Entertainment Co.	6,100	37. Wellmont Health Systems	3,600
13. K Mart Corporation	5,900	38. Walgreen Co.	3,600
14. Randstad Staffing Svcs. USA Inc.	5,900	39. Connecticut General Life Ins.	3,600
15. Bellsouth Telecommunications Inc.	5,800	40. Lowe's Home Centers Inc.	3,600
16. First Tennessee Bank	5,700	41. TN Limited Partners	3,400
17. UT-Battelle (Facilities Support Services)	5,500	42. International Paper Inc.	3,400
18. HCA-The Healthcare Co.	4,998	43. Home Depot Inc.	3,400
19. J.C. Penney Co. Inc.	4,900	44. St. Thomas Hospital	3,300
20. Baptist Memorial Hospital	4,900	45. McKee Foods Corp.	3,300
21. Carson Pirie Holdings (SAKS)	4,900	46. Staffmark Inc.-Nashville	3,300
22. Cracker Barrel Old Country Stores	4,700	47. Maytag Corp.	3,300
23. AmSouth Bancorp	4,600	48. E I DuPont de Nemours & Co.	3,300
24. Covenant Transport Inc.	4,400	49. Carrier Corp. (Collierville)	3,200
25. K-VA-T Food Stores Inc.	4,400	50. Hardees Food Systems Inc.	3,200

Source: Tennessee Department of Economic and Community Development.

## Agriculture

Important export commodities such as soybeans, tobacco, feed grains, cotton, and greenhouse and nursery products are among the top income earners for Tennessee farmers.

### Cash Receipts

(Expressed in Millions)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 (Est)
Crops	\$1,227.8	\$1,374.1	\$1,245.2	\$1,166.1	\$956.5	\$1,006.9	\$988.4	\$1,120.3	\$1,440.0	\$1,263.0
Meat animals	420.2	463.0	485.4	435.7	423.1	477.4	455.5	377.5	473.5	557.3
Dairy products	239.4	253.6	225.6	236.9	222.8	193.2	215.5	172.9	159.6	193.4
Poultry and eggs	203.4	251.7	256.8	306.1	294.5	258.4	395.3	300.2	354.2	475.1
	<u>\$2,090.8</u>	<u>\$2,342.4</u>	<u>\$2,213.0</u>	<u>\$2,144.8</u>	<u>\$1,896.9</u>	<u>\$1,935.9</u>	<u>\$2,054.7</u>	<u>\$1,970.9</u>	<u>\$2,427.3</u>	<u>\$2,488.8</u>

### Population and Employment Trend

The state's population has grown steadily in recent history by over one-half of 1% per year.

(Expressed in Thousands except Unemployment Rates)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 (Est)
Population	5,256	5,327	5,398	5,470	5,524	5,750	5,776	5,833	5,878	5,916
Average labor force	2,712	2,759	2,708	2,760	2,819	2,798	2,818	2,926	2,910	2,908
Average total employment	2,571	2,623	2,562	2,644	2,705	2,688	2,692	2,776	2,741	2,752
Average unemployment	141	136	146	116	114	110	126	150	169	156
TN Unemployment rate	5.2%	5.1%	5.4%	4.2%	4.0%	3.9%	4.4%	5.1%	5.8%	5.4%
U.S. Unemployment rate	5.6%	5.4%	4.9%	4.5%	4.2%	4.0%	4.8%	5.8%	6.0%	5.5%

### Bank Deposits, Sales and Effective Buying Income

(Expressed in Millions)

(Expressed  
in Thousands)

<u>Year</u>	<u>Bank Deposits</u>	<u>Sales</u>	<u>Effective Buying Income Median Household</u>
1995	\$52,321	\$57,917	\$29.1
1996	57,219	60,662	39.4
1997	54,302	66,030	31.5
1998	76,542	66,258	32.0
1999	64,966	72,325	33.6
2000	62,113	74,653	34.6
2001	73,051	74,522	34.0
2002	79,206	74,805	34.6
2003	82,803	77,420	34.3
2004	84,852	81,319	35.6

### New Privately Owned Housing Units Authorized in Permit-Issuing Places

#### Valuation of Building Permits Issued

(Expressed in Thousands)

<u>Year</u>	<u>Valuation</u>	<u>Year</u>	<u>Valuation</u>
1995	\$2,838,290	2000	\$3,377,629
1996	3,334,419	2001	3,540,178
1997	3,103,939	2002	3,961,209
1998	3,613,835	2003	4,478,748
1999	3,835,303	2004	5,863,310

Source: The Tennessee Econometric Model, Tennessee Department of Labor and Workforce Development Labor Summary, Sales and Marketing Management, Center for Business and Economic Research, College of Business Administration, The University of Tennessee, Tennessee Agricultural Statistics Service Cash Receipts Estimates and Tennessee Department of Financial Institutions Annual Report.

Population, Tax Base and Personal Income

(Expressed in Thousands)

Year	Population	Assessed Value	Appraised/ Estimated Current Value	Personal Income	Per Capita Income
1995	5,256	\$53,915,000	\$191,993,000	\$114,260,000	\$21.7
1996	5,327	56,072,000	207,352,000	119,287,000	22.4
1997	5,398	61,648,000	228,083,000	125,456,000	23.2
1998	5,470	71,292,000	249,897,000	134,282,000	24.5
1999	5,524	75,561,000	270,007,000	141,046,000	25.5
2000	5,750	78,568,000	290,633,000	149,936,000	26.1
2001	5,776	89,194,000	313,276,000	164,130,000	28.4
2002	5,833	92,726,000	323,092,000	158,717,000	27.2
2003	5,878	94,642,000	341,336,000	164,461,000	28.0
2004	5,916	97,366,000 (Est)	354,131,000 (Est)	175,551,000 (Est)	29.7

Public School Enrollment Grades K-12

Academic Year	Grades K-3	Grades 4-6	Grades 7-9	Grades 10-12	Total K-12
1995-96	308,006	215,579	225,154	180,969	929,708
1996-97	316,094	217,823	226,287	183,852	944,056
1997-98	320,784	221,651	227,097	187,172	956,704
1998-99	314,781	221,913	226,859	187,313	950,866
1999-2000	317,830	232,230	232,616	191,050	973,726
2000-2001	311,184	234,407	230,094	190,849	966,534
2001-2002	297,072	228,790	225,930	187,110	938,902
2002-2003	296,940	227,897	232,813	190,363	948,013
2003-2004	297,732	224,197	236,435	191,321	949,685
2004-2005	302,050	221,833	238,507	199,310	961,700

Higher Education Enrollment

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Universities:										
Austin Peay State	5,763	6,072	5,968	5,816	5,721	5,671	5,769	6,079	6,278	6,939
East Tennessee State	9,355	9,450	9,549	9,792	9,638	9,364	9,507	9,664	9,936	10,070
Middle Tennessee State	14,504	14,916	15,455	15,655	16,173	16,339	17,125	18,151	18,735	19,037
Tennessee State	6,787	7,007	7,168	7,383	7,629	7,431	7,425	7,703	7,716	7,662
Tennessee Technological	7,303	7,230	7,287	7,112	7,227	7,212	7,327	7,554	7,509	7,559
University of Memphis	15,495	15,001	15,452	15,771	15,909	15,613	15,890	15,696	15,720	16,128
University of Tennessee:										
Chattanooga	6,540	6,608	6,816	7,040	7,019	6,832	6,955	7,050	7,138	7,326
Knoxville	21,454	21,528	21,819	22,476	23,277	22,960	23,183	23,221	22,730	23,141
Martin	5,497	5,376	5,607	5,480	5,278	5,324	5,379	5,311	5,265	5,570
Total universities	92,698	93,188	95,121	96,525	97,871	96,746	98,560	100,429	101,027	103,432
Community colleges:										
Chattanooga State Tech	4,982	5,427	5,227	5,140	5,038	4,832	5,269	5,264	5,186	5,124
Cleveland State	2,204	2,111	2,376	2,176	2,158	2,083	2,318	2,200	2,224	2,088
Columbia State	2,501	2,639	2,820	2,947	2,906	2,788	2,984	3,108	3,082	3,145
Dyersburg State	1,373	1,531	1,533	1,522	1,435	1,563	1,577	1,657	1,819	1,770
Jackson State	2,155	2,223	2,328	2,416	2,548	2,514	2,658	2,713	2,743	2,702
Motlow State	2,077	2,116	2,287	2,273	2,221	2,199	2,441	2,556	2,436	2,465
Nashville State Tech	2,778	3,112	3,357	3,492	3,527	3,548	3,631	3,757	3,769	3,889
Northeast State Tech	2,314	2,459	2,422	2,513	2,601	2,607	2,879	2,968	3,112	3,334
Pellissippi State Tech	4,768	5,003	5,217	5,258	5,080	5,079	5,151	5,208	5,013	4,963
Roane State	3,591	3,688	3,720	3,675	3,797	3,474	3,647	3,767	3,775	3,850
Southwest Tennessee*	9,019	8,640	7,852	7,359	7,338	7,059	7,743	7,141	7,361	7,561
Volunteer State	3,904	4,129	4,236	4,198	4,107	4,138	4,295	4,525	4,426	4,483
Walters State	3,507	3,731	3,807	3,666	3,594	3,665	3,909	3,867	4,067	3,864
Total community colleges	45,173	46,809	47,182	46,635	46,350	45,549	48,502	48,731	49,013	49,238
Total all institutions	137,871	139,997	142,303	143,160	144,221	142,295	147,062	149,160	150,040	152,670

\* Effective July 1, 2000 State Technical Institute at Memphis (STIM) and Shelby State Community College (SSCC) were consolidated to form Southwest Tennessee Community College (STCC).

Sources: The Tennessee Econometric Model, State Board of Equalization, Tennessee Department of Education and the Higher Education Commission.



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## DEPARTMENT OF FINANCE AND ADMINISTRATION DIVISION OF ACCOUNTS

### CHIEF OF ACCOUNTS

JAN SYLVIS, CPA\*

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TAMMY WORLEY

### PAYROLL

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PAT ALFORD  
HARRY BROUGHMAN  
MELISSA HACKER  
SHYAMALI GHOSH  
TERRI KING  
REGGIE MARABLE  
DONNA NICELY  
CAROLYN SHEPHERD  
LARRY VOYTA

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LYNN CUMMINGS, CPA  
PAM HUGHES  
TERRI RACARD

### REVENUE MAXIMIZATION

DO'TTIE HAGOOD  
CHRISTA MARTIN

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ANN COLLETT, CPA\*  
KRISTI COUCH, CPA\*  
MICHELLE ELLIOTT, CPA\*  
ELLEN FELLMAN, CPA\*  
RHONDA HICKS, CPA  
TERRY MASON  
JUANITA MCCRARY\*  
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PEGGY SEAY, CPA\*  
DON SHELTON, CPA  
MARGARET WALKER, CPA\*  
ELAINE WERNER, CPA

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SUZE GRIMES  
CHRISTIE HEDGES\*  
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JENNIFER PEARSON, CPA,\* Inactive  
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HELEN THOMAS  
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TARA LEWIS  
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FRANCINE VAUGHN  
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DEBORAH WOODALL

### STARS DEVELOPMENT

DAVID DEALY  
CARRIE BLAIR\*  
BOB LAWSON, CPA\*, Inactive  
CINDY RITTENBERRY\*  
ANONG SHELTON\*

**SPECIAL ACKNOWLEDGMENT:** CLYDE M. PHILLIPS, CPA\*, FINANCIAL MANAGER, ERP

**\*PREPARER OF COMPREHENSIVE ANNUAL FINANCIAL REPORT**